

# **THE OFFICE OF REGULATORY STAFF**

## **DIRECT TESTIMONY AND EXHIBITS**

**OF**

**DOUGLAS H. CARLISLE, JR.**

**November 21, 2007**



**DOCKET NO. 2007-286-WS**

**Utilities Services of South Carolina, Inc.  
Application Adjustment of Rates and Charges  
and Modifications to Certain Terms and  
Conditions for the Provision of Water and Sewer  
Service**

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**TESTIMONY OF DOUGLAS H. CARLISLE, JR.**

**FOR**

**THE OFFICE OF REGULATORY STAFF**

**DOCKET NO. 2007-286-W**

**IN RE: UTILITIES SERVICES OF SOUTH CAROLINA, INC.**

**Q. PLEASE STATE YOUR NAME, OCCUPATION AND BUSINESS ADDRESS.**

**A.** My name is Dr. Douglas H. Carlisle, Jr. I am the Economist at the South Carolina Office of Regulatory Staff ("ORS"). My business address is 1441 Main Street, Suite 300, Columbia, South Carolina 29201.

**Q. WOULD YOU PLEASE STATE YOUR EDUCATIONAL BACKGROUND AND YOUR BUSINESS EXPERIENCE?**

**A.** I received a Bachelor of Arts from Brown University, a Masters Degree in Public Administration from the University of Virginia, and a Ph.D. in Government and International Relations also from the University of Virginia. After graduate school, I worked as an evaluator and evaluator-in-charge for 7½ years at the United States Government Accountability Office in Washington, D.C. Then I worked as a market consultant and instructor at Midlands Technical College in South Carolina. I began work for the State at the State Reorganization Commission, which functioned as an audit follow-up entity. I was next employed by the South Carolina House Education & Public Works Committee. Before joining ORS, I worked five years for the State Chief Economist as an analyst in the Economist Research Section and as an adjunct to the

Board of Economist Advisors. I assumed by current position at ORS in March of 2005. I have previously testified before this Commission concerning rate of return.

**Q. WHAT IS THE MISSION OF THE OFFICE OF REGULATORY STAFF?**

**A.** The mission of ORS is to represent the public interest in utility regulation by balancing the concerns of the using and consuming public, the financial integrity of public utilities, and the economic development of South Carolina.

**Q. WHAT IS THE PURPOSE OF YOUR TESTIMONY IN THIS PROCEEDING?**

**A.** My purpose is to recommend the appropriate range for return on equity for Utilities Services of South Carolina, Inc. ("USSC" or "the Company"). I shall present my conclusions and their bases for the appropriate return on equity for USSC.

**Q. WHAT STANDARDS GOVERN RATE OF RETURN?**

The Supreme Court of the United States set standards in two landmark decisions. In the first case, involving a water company, the Court declared:

A public utility is entitled to such rates as will permit it to earn a return on the value of the property which it employs for the convenience of the public equal to that generally being made at the same time and in the same general part of the country on investments in other business undertakings which are attended by corresponding risks and uncertainties; but it has no constitutional right to profits such as are realized or anticipated in highly profitable or speculative ventures. The return should be reasonably sufficient to assure confidence in the financial soundness of the utility and should be adequate, under efficient and economical management, to maintain and support its credit and enable it to raise money for the proper discharge of its duties.<sup>1</sup>

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<sup>1</sup> *Bluefield Water Works & Improvement Company. v. Public Service Commission of West Virginia*, 262 U.S. 679, 692-3 (1923).

1 This decision, the Bluefield decision was later reinforced by the decision in another case,  
2 Federal Power Commission v. Hope Natural Gas Company:

3  
4 [T]he fixing of “just and reasonable” rates, involves a balancing of the  
5 investor and consumer interests.... From the investor or company point of  
6 view it is important that there be enough revenue not only for operating  
7 expenses but also for the capital cost of the business. These include  
8 service on the debt and dividends on the stock..... By that standard the  
9 return to the equity owner should be commensurate with returns on  
10 investments in other enterprises having corresponding risks. That return,  
11 moreover, should be sufficient to assure confidence in the financial  
12 integrity of the enterprise, so as to maintain its credit and attract capital.<sup>2</sup>  
13

14  
15 **Q. DOES USSC UTILITIES COMPANY HAVE TRADED COMMON**  
16 **STOCK?**

17 **A.** No, its stock is entirely held by Utilities, Inc. of Northbrook, Illinois, which also  
18 has no publicly traded stock. Utilities, Inc. was bought by AIG Highstar’s sponsored  
19 fund Hydro Star Holdings in 2006.

20 **Q. IF NEITHER THE COMPANY NOR ITS PARENT HAS TRADED**  
21 **STOCK, HOW DID YOU PERFORM YOUR ANALYSIS TO RECOMMEND A**  
22 **RETURN ON EQUITY?**

23 **A.** To develop a fair rate of return recommendation for USSC, I evaluated the return  
24 requirements of investors on the common stock of two groups of publicly-held water  
25 service companies. I then applied to these two groups two well-known and generally  
26 accepted methods for determining a recommended return on equity, the Discounted Cash  
27 Flow and Capital Asset Pricing methods.

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<sup>2</sup> *Federal Power Commission v. Hope Natural Gas Company*, 320 U.S. 591, 603 (1944).

1 **Q. WHY DID YOU EXAMINE DATA ON COMPANIES WITH TRADED**  
2 **STOCK?**

3 **A.** First, USSC has asked to be treated as a publicly traded company by applying for  
4 a rate-based return-on-equity proceeding. Second, publicly traded water utilities are,  
5 after all, in the same line of business as USSC and so share similar risks. Third, data is  
6 far more readily available about publicly traded companies, so it is practical to use them.

7 **Q. HOW DID YOU SELECT THESE COMPANIES AND GROUPS?**

8 **A.** These companies are classified as “water utilities” by Value Line or by *Yahoo!*  
9 *Finance*, engage in water distribution to customers and obtain most of their revenues  
10 from utility services. They naturally fall into two groups based upon whether their  
11 annual revenues exceed \$100 million. The Larger Company Group comprises Aqua  
12 America, California Water Service Group, American States Water and SJW. I have  
13 excluded Southwest Water Company because most of its revenues come from  
14 unregulated activities. The Smaller Companies Group comprises Middlesex Water,  
15 Artesian Resources, Connecticut Water Service, Pennichuck Corporation, York Water  
16 Company and Birmingham Utilities, Inc. The average capital structure of the companies  
17 in the two groups is very close to 50% debt, 50% common equity. The characteristics of  
18 the companies are shown on Schedule DHC-1.

19 **Q. WHAT CAPITAL STRUCTURE DID YOU USE FOR YOUR ANALYSIS**  
20 **OF USSC?**

21 **A.** I used the structure submitted by the company in its application: 59.83% debt and  
22 40.17% equity. I used this structure for two reasons: USSC is closely integrated with its  
23 parent, so it would be difficult to determine an independently based capital structure.

1 Moreover, although it departs somewhat from the average of the companies in my proxy  
2 groups, it approximates their average capital structure.

3 **Q. WHY DO YOU NEED TO ESTIMATE A COST OF EQUITY AND**  
4 **RECOMMEND A RETURN ON EQUITY AT ALL FOR USSC?**

5 **A.** USSC is a monopoly and therefore does not face competition for its customers  
6 from other water companies. If the Company were in a competitive industry, its return  
7 on equity would be set by the competitive market for its goods and services. Since it is  
8 not in a competitive industry, regulation must act as a surrogate for competition. It would  
9 be unfair to allow the Company to set its own prices because it has no competition in its  
10 provision of an essential service and product, water.

11 **Q. HOW DOES REGULATION ACT AS A SURROGATE?**

12 **A.** Regulation seeks to establish prices that are fair and approximate the returns of  
13 similarly situated companies, which is consistent with the *Hope* and *Bluefield* criteria  
14 cited earlier. There are several reasons why regulation can be an effective surrogate for  
15 competition, but the most compelling is that public utilities face a competitive market in  
16 the arena of stock markets. The market for financing from common equity is  
17 competitive, regardless of the situation of individual companies or their needs or desires.  
18 This market provides an objective standard for evaluating the appropriate return on  
19 equity.

1 **Q. IF REGULATED COMPANIES ARE SIMILAR, THEN WOULD THAT**  
2 **NOT MAKE REGULATION CIRCULAR BECAUSE EACH RATE CASE IN**  
3 **EACH STATE REFERS TO DECISIONS IN ALL OTHER STATES?**

4 **A.** No, it does not. Since regulated utilities face a competitive market in trying to  
5 sell their equity, there is an independent evaluation of company performance by investors  
6 which helps determine what return these companies will actually receive. Companies'  
7 managements can affect how profitably their companies are run. Moreover, utility  
8 regulation calculates appropriate returns from used and useful assets known as rate base,  
9 so the precise characteristics of each company are recognized in each rate case  
10 proceeding.

11 **Q. IF COMPANIES ARE NOT ENTIRELY SIMILAR, IS IT NOT UNFAIR**  
12 **TO TREAT THEM ALIKE?**

13 **A.** No, for two reasons. First, companies like public utilities engaged in selling the  
14 same services and same goods, are bound to have some fundamental similarities. In fact,  
15 some of these shared characteristics form the basis for their regulation. Second, if  
16 investors had to choose between investing in one company, an alternative, or even among  
17 a very few companies, it might be somewhat unfair to treat very different companies  
18 alike. Investors, however, have a much wider range of choices and may invest in several  
19 companies at the same time. This choice has a great impact on investments in equity and  
20 their returns. By investing in more than one company, an investor may mix degrees of  
21 risk and return. To the extent that USSC's risks are unique, investors could avoid those  
22 risks by investing in several companies with different levels of risk. To the extent that  
23 USSC faces circumstances that are unique to a group of companies, using groups of

comparable companies accommodates such variation and, if investors wish to lessen risks associated with such a group, they may invest in companies in other lines of business.

**Q. WHAT FACTORS AFFECT INVESTORS' REQUIRED RETURN ON COMMON EQUITY?**

**A.** The process investors use, on a basic level, is quite simple. Investors have a desire to earn a certain return on their investments. For every dollar they invest, they expect to earn back that dollar plus some additional cents. Each investor differs from every other, but the market averages their weighted investments as it responds to their changing perceptions and preferences. The mathematical relationship between each dollar invested and dollar-plus-cents-earned is a ratio. Every change in every factor contributing to the return the investor hopes to receive takes the form of a ratio change. For example "1.11" represents 11¢ additional that each investor hopes to earn on an initial investment of \$1.00.

Investors, however, know that their expectations may not be fulfilled. They seek investments with a reasonable chance of earning the return they seek. Each investor has a concept of what "reasonable" means and investors differ from each other. Free market forces measure investors' collective expectations of the odds that they will achieve their investment goal. Another term for the assessment of the chances that investors will earn their goal is "risk."

One can think of investors' preferences mathematically: an earnings-to-investment ratio times a percentage risk or divided by a ratio expressing risk. For example, an investor might want to earn \$1.11 for every \$1.00 invested, a 1.11 ratio, but realize that there was only a 90%, or .9 or 9/10 chance of doing so. \$1.11 times .9 equals

1 just under \$1.00. From the investor's perspective, the return is likely to be near zero –  
2 the invested \$1.00 is likely to be returned with no gain. As a consequence, every investor  
3 seeks to earn enough to be compensated for the risk undertaken.

4 This common-sense approach to returns and risks masks a very simple but very  
5 powerful point about factors affecting investment. Investors, through their own analysis  
6 and perhaps through the analysis of investment advisors, take into consideration all forms  
7 of risk that affect the odds they will earn their target returns. Thus, there is no need to  
8 partition risk into various components, unless there is a market imperfection. For  
9 example, if a company has a high "business risk" such that it may face a decline in  
10 earnings, then investors, not being foolish, are more likely not to invest in the company or  
11 to expect it to produce lower earnings, bringing about a decline in the price of its stock,  
12 which, if the dividend remains constant, raises the dividend yield. The business risk is  
13 incorporated into the market. Bond rates measure the risk of bankruptcy, an extreme  
14 form of risk, but the market still takes that into account. There are, however, different  
15 ways to measure market-driven investment risk and I have applied two well-known and  
16 generally accepted methods for determining a recommended return on equity, the  
17 Discounted Cash Flow and Capital Asset Pricing methods.

18 **Q. HOW DOES THE DISCOUNTED CASH FLOW (DCF) MODEL**  
19 **REFLECT INVESTORS' EXPECTATIONS?**

20 **A.** Companies, from one perspective, resemble cash-generating and –consuming  
21 machines that produce extra cash that can improve the company or reward owners, after  
22 debts have been repaid. Under the DCF Model, someone who buys a share of a company  
23 pays a price per share that reflects expectations of all future cash rewards in the form of

dividends, discounted to their present value. The Model assumes that the earnings not paid out in the form of dividends enhance the future value of the stock in the form of higher future earnings and dividends. The current return on a stock reflects expectations of dividends that will be paid out periodically in the future and therefore reflects the market's assessment of risk and reward, which is the cost of common equity. In other words, the discounted return on a stock indicates the cost of common equity.

Mathematically, the DCF Model may be represented by the following formula, under the assumption of long-term constant growth:

$$r = \text{DIV}_1/P_0 + g,$$

where  $r$  is the expected rate of return (sometimes shown as "k"),  $\text{DIV}_1/P_0$  is the dividend yield, and  $g$  is the expected rate of growth in dividends. This formula was popularized by Myron J. Gordon and is sometimes called the "Gordon formula."

Stocks' current dividend yields appear in several sources of financial data and present little problem for measurement. Growth, the "g" factor, is more complicated. Nonetheless, there are ways to minimize problems with its estimation. I have employed multiple approaches that use historical data and analysts' predictions, since history and analysts' forecasts are the two things every investor or analyst is likely to know.

**Q. HOW DID YOU DETERMINE  $g$ , THE GROWTH RATE COMPONENT?**

**A.** I calculated historical growth rates in sales, earnings per share (EPS), dividends per share (DPS), and Book Value per Share (BVPS) for my proxy group. I obtained historical data from Value Line for those companies covered by that service and used

1 Morningstar (another widely used service comparable to Value Line) and filings with the  
2 Securities Exchange Commission to supplement the data. In addition, I used EPS  
3 forecasts by Value Line and Morningstar.

4 **Q. IF ESTIMATING GROWTH IS A SPECIAL PROBLEM, DOES THE**  
5 **GROWTH OF DIVIDEND YIELD ALSO PRESENT A PROBLEM?**

6 **A.** Yes it does, but there is a good approximation that satisfactory resolves the  
7 problem. Since dividends are expected to grow over the long term, their growth is part of  
8 the yearly corporate financial cycle. Dividends are announced each quarter. The  
9 dividend yield for an entire year reflects increases that have taken place during that year  
10 or twelve-month period. The major problem for estimation arises because different  
11 companies have different schedules for announcing dividends, sometimes different  
12 dividends for different quarters when there is otherwise no change in annual dividend  
13 amounts, and may not increase their payments steadily from year to year.

14 One method of accounting for future dividend growth is to multiply the current  
15 annualized dividend amount by the growth factor plus one (viz., " $D_0$  times  $1 + g$ "). Since  
16 the DCF Model posits that growth is constant and dividend yields will reflect the cost of  
17 capital, applying the growth factor to dividends makes sense and is consistent with the  
18 basic DCF formula. The problem with this solution is that taking the annual dividend  
19 amount may average in a quarter with a dividend increase, thereby undercounting it, if  
20 the annualizing uses all four quarters of dividends. On the other hand, taking one quarter  
21 and multiplying by four may omit a declared dividend increase that has not yet occurred  
22 but which will occur. Rather than going to great lengths to determine exactly when each  
23 company is likely to issue its dividend, multiplying the current dividend yield by 1.5

1 avoids undercounting upcoming dividends. To see why this is true, we may consider four  
2 hypothetical cases. In the first case, the dividend is increased at the beginning of the year  
3 for the first quarter dividend payment, so there is 0% undercounting. In the second case,  
4 the dividend is increased in the first quarter for the second quarter payment, so there is a  
5 25% undercounting of a full year's worth of the quarterly dividend, because the increase  
6 will apply to four quarters, but we are counting only three of the quarters in which the  
7 dividend increase will exist. In the third case, the dividend increase takes place at the end  
8 of the second quarter in the third quarter payment and there will be a 50% undercounting.  
9 If the announced increase takes place at the end of the third quarter and occurs in the  
10 fourth quarter payment, as the fourth case, there will be a 75% undercounting. So we  
11 have one case with no problem and three with an undercounting of a dividend increase.  
12 The collective undercounting of three cases is 150%, which averaged over the three cases  
13 is 50%, so we multiply the dividend yield by the growth rate times 1.5 or 150%.

14 **Q. WHAT EARNINGS DATA DID YOU USE FOR COMPUTING YOUR DCF**  
15 **COST OF EQUITY?**

16 **A.** I have prepared several schedules that show different aspects of the flows of cash  
17 relevant to a prospective stock investor. Schedule DHC-1 shows the earnings per share  
18 ("EPS") for the Small Water Company Group ("Small Group") and the Large Water  
19 Company Group ("Large Group"). I have measured the growth in two ways: geometric  
20 mean, also known as the compound annual growth rate, and arithmetic average. Both  
21 statistics are available to investors and those investors familiar with the effects upon  
22 interest payments of compounding can calculate both statistics themselves. The  
23 advantage of the geometric mean is that it accurately reflects the constantly changing

1 base of company growth. For example, a hypothetical average growth of 10% computed  
2 by averaging each year's percentage change and dividing it by the number of years may  
3 give a distorted reading of likely future growth. The reason for this distortion is that the  
4 base changes after each percentage change, so that, even if the percentage growth does  
5 not change, the dollars involved do. Everyone knows that 10% of 90 is different from  
6 10% of 100, so the geometric mean makes more sense if an investor plans to hold a stock  
7 investment for more than the period over which the simple percentage change is  
8 calculated, usually a year. On the other hand, some investors wish to trade frequently  
9 and, for them, the annual arithmetic change may be adequate, provided they wish to sell  
10 the stock at the end of the period for which the simple average is computed.

11 Both measurements of growth show that the Small Group actually experienced  
12 diminishing earnings per share. The Large Group grew at a 9.84% compounded rate over  
13 the most recent three years, while the Small Group's earnings shrank nearly 2½%,  
14 although there was variation among the companies in each group. There is a trade-off  
15 between what is typical for a group of companies, collectively, and the characteristics of  
16 a notionally typical company located in the "middle" of the group. For example, suppose  
17 there are five companies that grow at some rate. The only way an investor could try to  
18 realize the gain that the five companies experience, would be to buy stock in all five. On  
19 the other hand, an investor could try to realize the median gain of the five companies by  
20 ranking the companies by growth and investing in the middle company. For that reason,  
21 and to reduce the skewing effects individual companies had on each group, I have  
22 included the median statistic, as well as the mean.

1 The dimension of time played a role in the data on EPS and other indicators of  
2 growth. More recent trends received more weight. I calculated the mean and the median  
3 for three, five and ten years' data from Value Line and then averaged the result.

4 **Q. DID YOU USE THE SAME PROCEDURES FOR YOUR DIVIDEND PER**  
5 **SHARE ("DPS"), BOOK VALUE PER SHARE ("BVPS"), AND SALES DATA?**

6 **A.** Yes I did. The trends for this data are generally similar to those for EPS, both in  
7 terms of trends over time and in respect to the relative gains of the two Groups. This data  
8 appears in Schedules DHC-3, DHC-4, and DHC-5. The difference between the groups is  
9 especially great, proportionately, with respect to DPS and BVPS, but the gap is narrower  
10 with respect to sales growth. BVPS is notably growing faster among the Large Group,  
11 which, in the past three years has averaged 8.63% compounded annual growth, while the  
12 Small Group has averaged a 4.80% compound annual growth rate. With sales increasing  
13 almost as fast among the Small Company Group and the change in the increase slightly  
14 higher among the smaller companies, there may be a long-run convergence in growth  
15 between the two groups.

16 **Q. WHY DID YOU USE GROWTH FORECASTS IN YOUR**  
17 **CALCULATIONS AND HOW DID YOU USE THEM?**

18 **A.** All the data that I have discussed so far is retrospective – it looks at the past.  
19 Relying on historical data alone – called an "ex ante" analysis – assumes that the future  
20 will be much like the past, which may not be true. On the other hand, a completely  
21 prospective analysis – an "ex post" calculation of the cost of equity – has the flaw of  
22 being speculative since it attempts to predict the outcome of very complex economic  
23 events. Professional analysts make careers of such prediction and they influence

1 investors, so it is only reasonable to take their predictions into consideration. A  
2 combination of prospective and retrospective analyses reflects the data investors can  
3 consult before investing.

4 Value Line predictions regarding EPS were readily available for both the Large  
5 and most of the Small Group companies. They were not available for both Groups for  
6 the other statistics and I did not use data that applied only to one of the two Groups.  
7 Where Value Line EPS forecasts were not available for three of the Small Group  
8 companies, I used projections from Morningstar.com.

9 The data, shown in Schedule DHC-7, reveal an interesting pattern. Within the  
10 Small Group, there is a tendency toward a “rebound” among the poorest performers and  
11 moderation among the better performers.

12 **Q. WHAT WERE YOUR RESULTS FOR THE DCF GROWTH RATE, THE**  
13 **“g” FACTOR?**

14 **A.** Weighing both historical experience and analysts’ projections, I arrived at a  
15 growth rate of 6.32% for the Small Group and 7.65% for the Large Group. The results  
16 are shown on Schedule DHC-8.

17 **Q. HOW DID YOU CALCULATE THE DIVIDEND COMPONENT OF**  
18 **YOUR DCF ANALYSIS?**

19 **A.** I used yield data from the most recent 90 days of data for which I could obtain  
20 data from *Yahoo! Finance*. I believe that this period is long enough to be typical and yet  
21 short enough to provide sufficiently contemporary data. I averaged the dividend yield for  
22 each company and then averaged the yield for each to the two Groups. Each Group’s  
23 average was then multiplied by “1 + g” to take into account possible dividend growth in

1 the next twelve months. My results were an equity capital cost of 9.45% for the Small  
2 Group, 10.08% for the Large Group, which indicate an overall DCF equity cost of 9.76%.

3 **Q. DESCRIBE THE BASIS FOR YOUR OTHER METHOD FOR**  
4 **DETERMINING THE APPROPRIATE RETURN ON EQUITY FOR USSC.**

5 **A.** The other method I used to ascertain the cost of equity capital relies upon the  
6 Capital Asset Pricing Model or Method ("CAP-M"). Under this model, one measures the  
7 risk of an investment against a risk-free investment. The Capital Asset Pricing Model  
8 (CAP-M) quantifies that risk and, based on that risk, the required return on an  
9 investment, compared to all other securities. In practice, rather than comparing a stock  
10 investment to all other securities, it is compared to all other stocks in a particular stock  
11 index. If the stock carries some risk particular to it, investors are assumed to be able to  
12 avoid that risk by diversifying their investments through holding a portfolio, thereby  
13 eliminating the idiosyncratic, or "non-systemic," risk. The remaining risk is systemic –  
14 the risk of the stock shared with the rest of the market. Note that elimination of  
15 non-systemic risk does not mean that the differences in returns are eliminated, just that  
16 particular threats to returns can be neutralized.

17 The difference between the market investment and risk-free investment is a  
18 measurement of the risk of an investment, other things being equal. Of course, other  
19 things are never quite equal. This Model treats the fluctuation of the return of an  
20 investment against alternative investments as a prime concern. A statistic called "Beta"  
21 (" $\beta$ ") measures the degree of reliability or unreliability of an investment, compared to all  
22 other investments, which is a form of risk.  $\beta$  is the covariance of the stock of a potential  
23 investment and all other stocks. A  $\beta$  of "1" indicates perfect correspondence between a

1 stock's variation and the variation of the all other stocks combined. A  $\beta$  below "1"  
2 indicates a stock that is less risky than the market as a whole, while a  $\beta$  above "1"  
3 indicates a stock that is riskier than the overall market. The formula for CAP-M is:

$$K = R_f + (\beta * (R_f - R_m))$$

4  
5  
6  
7 where K is the cost of equity capital;  $R_f$  is the risk-free rate of return; and  $R_m$  is the  
8 market rate of return.

9  
10 **Q. HOW DID YOU PERFORM YOUR CAP-M ANALYSIS AND ARRIVE AT**  
11 **YOUR CAP-M RESULT?**

12 **A.** I used a retrospective and a prospective CAP-M analysis to arrive at a preliminary  
13 range. I then excluded extremes based on a preference for the geometric mean and the  
14 DCF results.

15 The retrospective analysis drew from two sources. Value Line publishes  $\beta$   
16 statistics in its quarterly compilations of data on each company. As  $\beta$  changes frequently,  
17 it is important to use one source so as to ensure a consistent measurement. I averaged the  
18  $\beta$ 's of all the water companies for which  $\beta$  was available in the two Groups (see Schedule  
19 DHC-9). My second source was the data compiled by Ibbotson Associates in its annual  
20 yearbook, Stocks, Bonds, Bills & Inflation, Valuation Edition, 2006. I used the total  
21 returns for the S&P 500 from 1926-2005, which is 10.4%. This number, when plugged  
22 into the CAP-M equation produces a cost of equity of 9.37%, not far from the DCF  
23 result. I included, too, the results using the arithmetic mean, according to the Ibbotson

1 data, which yields a 10.92% cost of equity. Since using the arithmetic mean, especially  
2 for data over such a long period, produces inflation of returns, I averaged the two results,  
3 which produces a 10.14%, which, for reasons I will discuss shortly, should be regarded as  
4 the top end of my CAP-M results, with 9.37% being at the lower end.

5 For my prospective analysis, I used figures prepared by Roger G. Ibbotson and a  
6 colleague. They co-authored an article which calculated the expected long-term equity  
7 risk premium to be about 6%, using arithmetic means, and about 4%, using geometric  
8 means. Using his forward-looking risk premia in the CAP-M formula, results in returns  
9 on equity of 7.91% and 9.49%, which average to 8.70%. Averaging this result with the  
10 one using retrospective data gives a return on equity of 9.42%.

11 **Q. IS THERE ANY OTHER EVIDENCE TO SUPPORT THIS RESULT?**

12 **A.** There is indirect evidence. If one uses the DCF result and places it into the  
13 CAP-M formula, the result is somewhat under 9%. Using the DCF result, however, is  
14 subject to the criticism that it double-counts the lower risk of water companies. An  
15 adjustment to the  $\beta$ , however, eliminates the basis for this criticism. If the  $\beta$  is set to "1,"  
16 then the lower risk of water companies is eliminated. The result is an equity cost of  
17 9.79% (Schedule DHC-9). This result is quite close to the CAP-M result.

18 **Q. HOW DO YOU INTERPRET THE CAP-M RESULT?**

19 **A.** It is confirmation that water companies, like other public utilities that are  
20 monopolies or near monopolies, are less risky than a typical investment. It is in line,  
21 though not the same as, the DCF result. Based on the checks for reasonableness, my  
22 analysis concludes that 9.41% is a reasonable low point and that the top end of my range  
23 should be no more than 10.14%. Moreover, these results and the DCF result indicate a

1 return on the lower end of my overall CAP-M range.

2

3 **Q. WHAT IS YOUR OVERALL RECOMMENDATION FOR RETURN ON**  
4 **EQUITY FOR USSC?**

5 **A.** Based on my DCF and CAP-M analyses, I recommend a range of 9.41% to  
6 10.14% with more emphasis upon the lower end. This range is fair and eliminates  
7 extremes associated with the geometric mean in the prospective CAP-M and with the  
8 arithmetic mean in the retrospective CAP-M, while containing the Small Company and  
9 Large Company Groups' DCF results.

## PROXY GROUPS OF WATER COMPANIES

{All Dollar Amounts are in millions}

Schedule DHC-1

p. 1 of 1

WATER COMPANY	GROUPS, BY RELATIVE SIZE	REVENUE	CAPITALIZA- TION	LONG- TERM DEBT	COMMON STOCK RATIO TO CAPITAL
AQUA AMERICA	LARGE GROUP	\$571.7	\$1,984.4	\$1,040.1	47.6%
CALIFORNIA WATER	LARGE GROUP	\$355.8	\$670.5	\$291.3	56.6%
AMERICAN STATES	LARGE GROUP	\$292.7	\$560.0	\$267.6	52.2%
SJW	LARGE GROUP	\$201.8	\$426.9	\$196.7	53.9%
MIDDLESEX WATER	SMALL GROUP	\$82.5	\$264.5	\$130.1	50.8%
ARTESIAN	SMALL GROUP	\$50.6	\$172.9	\$91.9	46.8%
CONNECTICUT WATER SERVICE	SMALL GROUP	\$48.7	\$174.7	\$77.3	55.8%
YORK	SMALL GROUP	\$30.4	\$127.6	\$61.1	52.1%
PENNICHUCK	SMALL GROUP	\$26.6	\$64.0	\$49.0	23.4%
BIW	SMALL GROUP	\$9.6	\$20.1	\$9.0	55.2%
Average Capitalization					<b>49.4%</b>

## Earnings per Share History

Schedule DHC-2  
p. 1 of 1

### Large Company Group

	<u>Compounded ("Geometric") Change</u>			<u>Arithmetic Change</u>		
	<u>3-yr.</u>	<u>5-yr.</u>	<u>10-yr.</u>	<u>3-yr.</u>	<u>5-yr.</u>	<u>10-yr.</u>
Amer. States Water	19.47%	-0.30%	1.64%	20.36%	3.71%	3.77%
Aqua America	7.09%	6.54%	8.84%	7.27%	6.65%	8.96%
California Water	3.46%	7.35%	-1.19%	4.17%	8.46%	0.56%
SJW Corp	9.35%	9.10%	N/A	10.20%	9.71%	N/A
Means	<b>9.84%</b>	<b>5.67%</b>	<b>3.10%</b>	<b>10.50%</b>	<b>7.13%</b>	<b>4.43%</b>
Medians	<b>8.22%</b>	<b>6.94%</b>	<b>1.64%</b>	<b>8.73%</b>	<b>7.55%</b>	<b>3.77%</b>

Average of Large Company Group Means & Medians **6.46%**

### Small Company Group

	<u>Compounded ("Geometric") Change</u>			<u>Arithmetic Change</u>		
	<u>3-yr.</u>	<u>5-yr.</u>	<u>10-yr.</u>	<u>3-yr.</u>	<u>5-yr.</u>	<u>10-yr.</u>
Middlesex Water	10.36%	4.44%	N/A	10.81%	5.32%	N/A
Artesian Resources	14.87%	6.74%	N/A	14.92%	7.51%	N/A
Conn. Water Services	-11.03%	-6.44%	N/A	-10.41%	-5.89%	N/A
York Water Co.	7.49%	6.02%	N/A	13.20%	9.75%	N/A
Pennichuck	-28.93%	-34.14%	N/A	-7.78%	-21.06%	N/A
BIW	-7.33%	-35.19%	N/A	-2.93%	-18.88%	N/A
Means	<b>-2.43%</b>	<b>-9.76%</b>		<b>2.97%</b>	<b>-3.88%</b>	
Medians	<b>0.08%</b>	<b>-1.00%</b>		<b>3.94%</b>	<b>-0.28%</b>	

Average of Small Company Group Means & Medians **-1.29%**

Sources: Value Line for larger companies; Morningstar.com & Zacks.com for smaller

## Dividends per Share History

Schedule DHC-3  
p. 1 of 1

### Large Company Group

	<u>Compounded ("Geometric") Change</u>			<u>Arithmetic Change</u>		
	<u>3-yr.</u>	<u>5-yr.</u>	<u>10-yr.</u>	<u>3-yr.</u>	<u>5-yr.</u>	<u>10-yr.</u>
Amer. States Water	1.12%	0.90%	1.05%	1.12%	1.12%	1.11%
Aqua America	7.93%	7.96%	6.70%	7.94%	9.05%	10.00%
California Water	0.89%	0.53%	1.01%	0.89%	0.88%	0.88%
SJW Corp	5.17%	5.80%	N/A	5.18%	5.73%	N/A
Means	<b>3.78%</b>	<b>3.80%</b>	<b>2.92%</b>	<b>3.78%</b>	<b>4.20%</b>	<b>4.00%</b>
Medians	<b>3.15%</b>	<b>3.35%</b>	<b>1.05%</b>	<b>3.15%</b>	<b>3.43%</b>	<b>1.11%</b>

Average of Large Company Group Means & Medians **3.14%**

### Small Company Group

	<u>Compounded ("Geometric") Change</u>			<u>Arithmetic Change</u>		
	<u>3-yr.</u>	<u>5-yr.</u>	<u>10-yr.</u>	<u>3-yr.</u>	<u>5-yr.</u>	<u>10-yr.</u>
Middlesex Water	1.52%	1.46%	N/A	1.91%	1.18%	N/A
Artesian Resources	1.56%	2.98%	N/A	1.57%	0.77%	N/A
Conn. Water Services	1.52%	1.86%	N/A	1.52%	1.50%	N/A
York Water Co.	6.74%	5.77%	N/A	6.75%	7.42%	N/A
Pennichuck	4.80%	4.34%	N/A	4.80%	5.31%	N/A
BIW	4.26%	3.23%	N/A	4.44%	0.00%	N/A
Means	<b>3.40%</b>	<b>3.27%</b>		<b>3.50%</b>	<b>2.70%</b>	
Medians	<b>2.91%</b>	<b>3.10%</b>		<b>3.18%</b>	<b>1.34%</b>	

Average of Small Company Group Means & Medians **2.93%**

## Book Value per Share History

Schedule DHC-4  
p. 1 of 1

### Large Company Group

	<u>Compounded ("Geometric") Change</u>			<u>Arithmetic Change</u>		
	<u>3-yr.</u>	<u>5-yr.</u>	<u>10-yr.</u>	<u>3-yr.</u>	<u>5-yr.</u>	<u>10-yr.</u>
Amer. States Water	6.00%	4.71%	4.22%	6.01%	4.75%	4.25%
Aqua America	9.23%	10.90%	9.97%	9.25%	11.05%	10.08%
California Water	8.24%	7.17%	4.13%	8.41%	7.32%	4.27%
SJW Corp	11.06%	8.84%	N/A	11.14%	8.94%	N/A
Means	<b>8.63%</b>	<b>7.90%</b>	<b>6.11%</b>	<b>8.70%</b>	<b>8.02%</b>	<b>6.20%</b>
Medians	<b>8.74%</b>	<b>8.01%</b>	<b>4.22%</b>	<b>8.83%</b>	<b>8.13%</b>	<b>4.27%</b>

Average of Large Company Group Means & Medians **7.31%**

### Small Company Group

	<u>Compounded ("Geometric") Change</u>			<u>Arithmetic Change</u>		
	<u>3-yr.</u>	<u>5-yr.</u>	<u>10-yr.</u>	<u>3-yr.</u>	<u>5-yr.</u>	<u>10-yr.</u>
Middlesex Water	8.92%	6.67%	N/A	9.02%	6.77%	N/A
Artesian Resources	4.01%	N/A	N/A	4.01%	-3.21%	N/A
Conn. Water Services	3.51%	4.63%	N/A	3.53%	4.66%	N/A
York Water Co.	12.88%	9.03%	N/A	13.08%	9.25%	N/A
Pennichuck	3.80%	3.22%	N/A	4.15%	3.45%	N/A
BIW	-4.35%	-3.22%	N/A	-4.34%	-3.21%	N/A
Means	<b>4.80%</b>	<b>4.07%</b>		<b>4.91%</b>	<b>2.95%</b>	
Medians	<b>3.91%</b>	<b>4.63%</b>		<b>4.08%</b>	<b>4.06%</b>	

Average of Small Company Group Means & Medians **4.18%**

## Sales/Revenue per Share History

Schedule DHC-5  
p. 1 of 1

### Large Company Group

	<u>Compounded ("Geometric") Change</u>			<u>Arithmetic Change</u>		
	<u>3-yr.</u>	<u>5-yr.</u>	<u>10-yr.</u>	<u>3-yr.</u>	<u>5-yr.</u>	<u>10-yr.</u>
Amer. States Water	8.09%	6.34%	5.89%	8.17%	6.42%	6.04%
Aqua America	13.26%	11.66%	15.85%	13.39%	11.80%	17.00%
California Water	6.50%	6.28%	6.24%	6.63%	6.36%	6.42%
SJW Corp	8.12%	6.81%	N/A	8.15%	6.85%	N/A
Means	<b>8.99%</b>	<b>7.77%</b>	<b>9.33%</b>	<b>9.08%</b>	<b>7.86%</b>	<b>9.82%</b>
Medians	<b>8.10%</b>	<b>6.58%</b>	<b>6.24%</b>	<b>8.16%</b>	<b>6.64%</b>	<b>6.42%</b>

Average of Large Company Group Means & Medians **7.92%**

### Small Company Group

	<u>Compounded ("Geometric") Change</u>			<u>Arithmetic Change</u>		
	<u>3-yr.</u>	<u>5-yr.</u>	<u>10-yr.</u>	<u>3-yr.</u>	<u>5-yr.</u>	<u>10-yr.</u>
Middlesex Water	8.16%	6.35%	N/A	8.18%	6.39%	N/A
Artesian Resources	10.22%	8.72%	N/A	10.32%	16.83%	N/A
Conn. Water Services	-0.14%	0.65%	N/A	-0.12%	0.67%	N/A
York Water Co.	11.15%	8.15%	N/A	11.29%	8.30%	N/A
Pennichuck	4.61%	1.45%	N/A	4.63%	2.94%	N/A
BIW	13.27%		N/A	16.27%	N/A	N/A
Means	<b>7.88%</b>	<b>5.06%</b>	N/A	<b>8.43%</b>	<b>7.03%</b>	N/A
Medians	<b>9.19%</b>	<b>6.35%</b>	N/A	<b>9.25%</b>	<b>6.39%</b>	N/A

Average of Small Company Group Means & Medians **7.45%**

**Current Dividend Yields****Large Company Group**

	<u>90-DAY YIELD</u>	<u>COMPARISON WITH SPOT YIELD</u>
Amer. States Water	2.46%	2.21%
Aqua America	2.01%	2.18%
California Water	3.01%	2.78%
SJW Corp	1.85%	1.85%
<i>Group Average</i>	<b>2.33%</b>	<b>2.26%</b>

**Small Company Group**

	<u>90-DAY YIELD</u>	<u>COMPARISON WITH SPOT YIELD</u>
Middlesex Water	3.65%	3.65%
Artesian Resources	3.49%	3.50%
Conn. Water Services	3.57%	3.63%
York Water Co.	2.72%	2.72%
Pennichuck	2.65%	2.67%
BIW	2.15%	1.99%
<i>Group Average</i>	<b>3.04%</b>	<b>3.03%</b>

Note:

90-day period from June 11-October 15, 2007; days=market-days

Source:

Yahoo! Finance

## Analysts' Growth Estimates of Earnings Per Share

### Large Company Group

	<u>Value</u> <u>Line</u>	<u>Morning-</u> <u>star</u>	<u>Average</u>
Amer. States Water	10.08%	5.00%	7.54%
Aqua America	8.45%	11.20%	9.82%
California Water	9.92%	7.70%	8.81%
SJW Corp	9.12%	10.00%	9.56%

**Mean 8.9%**

**Median 9.2%**

**9.1%**

### Small Company Group

	<u>Value</u> <u>Line</u>	<u>Morning-</u> <u>star</u>	<u>Average</u>
Middlesex Water	2.9%	7.5%	5.2%
Artesian Resources	N/A	8.1%	8.1%
Connecticut Water Services	14.3%	15.0%	14.6%
York Water Company	6.6%	10.7%	8.6%
Pennichuck	N/A	15.1%	15.1%
BIW	N/A	N/A	N/A

**Mean 10.3%**

**Median 8.6%**

**9.5%**

#### Note:

Morningstar estimates are from [www.morningstar.com](http://www.morningstar.com), accessed September 17, 2007

Value Line estimates are from *Value Line Plus Edition*, October 26, 2007

## Summary of Discounted Cash Flow Calculation

### Small Group

### Large Group

	<b>Growth</b>	<b>Forecast</b>	<b>Average</b>	<b>Growth</b>	<b>Forecast</b>	<b>Average</b>
EPS	-1.29%	9.50%		6.46%	9.10%	
DPS	2.89%			3.14%		
BVPS	4.18%			7.31%		
SALES	6.76%			7.92%		
	3.13%	9.50%	<b>6.32%</b>	6.21%	9.10%	<b>7.65%</b>
<i>Dividend Yield</i>			<b>3.04%</b>			<b>2.33%</b>
<i>Adjustment Factor</i>			<b>1.0316</b>			<b>1.0383</b>
<i>Adjusted Div. Yield</i>			<b>3.14%</b>			<b>2.42%</b>
			<b>9.45%</b>			<b>10.08%</b>
<b>Average of the two Groups:</b>				<b>9.76%</b>		

# CAPITAL ASSET PRICING MODEL CALCULATIONS

Schedule DHC-9

p. 1 of 1

<u>Company</u>	$\beta$
Amer. States Water	0.90
Aqua America	0.85
California Water	0.95
SJW Corp	0.85
Middlesex Water	0.80
Conn. Water Services	0.85
York Water Co.	0.55
Pennichuck	no VL data
BIW	no VL data
Artesian Resources	no VL data
	<b>0.82</b>

## Key to Symbols

$r_f$  = Risk-Free Rate of Return

$r_m$  = Market-Risk Rate of Return

$\beta$  = Beta

	$r_f$	$r_m$	$\beta$	$r_m - r_f$	
Ibbotson Growth, Geometric Mean	4.65%	10.40%	0.82	5.75%	<b>9.37%</b>
Ibbotson Growth, Arithmetic Mean	4.65%	12.30%	0.82	7.65%	<b>10.92%</b>

Average of Geometric and Arithmetic Mean Results **10.14%**

Ibbotson, Long-Run Forward Looking Equity Risk Premium, Geometric Mean 3.97% **7.91%**

Ibbotson, Long-Run Forward Looking Equity Risk Premium, Arithmetic Mean 5.90% **9.49%**

Average of Geometric and Arithmetic Mean Results **8.70%**

Average of Ibbotson Retrospective and Prospective Approaches **9.42%**

	$r_f$	$r_m$	$\beta$	
Result, using DCF as input with $\beta=1$	4.65%	9.76%	1.00	<b>9.76%</b>

## Sources:

$\beta$  -- Value Line

$r_f$ =30-yr U.S. Treasury Security yield as of October 19, 2007, from *Blue Chip Financial Forecasts*, Nov. 1, 2007

Ibbotson, R., Peng, C., "Long-Run Stock Returns: Participating in the Real Economy," *Financial Analysts' Journal*, January/February 2003, pp. 88-98.

AQUA AMERICA NYSE-WTR										RECENT PRICE	22.86	P/E RATIO	26.3 (Trailing: 32.2 Median: 24.0)	RELATIVE P/E RATIO	1.43	DIV'D YLD	2.2%	VALUE LINE
TIMELINESS	4	Raised 3/9/07	High: 5.7	8.5	11.5	11.5	12.0	14.8	15.0	16.8	18.5	29.2	29.8	26.6				Target Price Range
SAFETY	3	Lowered 8/1/03	Low: 3.9	4.4	7.2	7.6	6.3	9.4	9.6	11.8	14.2	17.5	20.1	20.5				2010 2011 2012
TECHNICAL	3	Raised 7/13/07	LEGENDS															
BETA	.85	(1.00 = Market)	1.60 x Dividends p sh divided by Interest Rate															
2010-12 PROJECTIONS			3-for-2 split 7/96															
Ann'l Total			4-for-3 split 1/98															
Price Gain			5-for-4 split 12/00															
High 30 (+30%) 9%			5-for-4 split 12/01															
Low 19 (-15%) -2%			5-for-4 split 12/03															
Insider Decisions			4-for-3 split 12/05															
Institutional Decisions			Options: Yes															
Percent shares traded			Shaded area indicates recession															
to Buy																		
to Sell																		
Hld's(000)																		
4Q2006																		
10Q2007																		
20Q2007																		
to Buy																		
to Sell																		
Hld's(000)																		
1991																		
1992																		
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2003																		
2004																		
2005																		
2006																		
2007																		
2008																		
© VALUE LINE PUB., INC.			10-12															
2.14			1.82															
.45			.39															
.25			.24															
.19			.21															
.54			.60															
2.07			2.09															
41.42			51.20															
10.8			12.5															
.69			.76															
7.2%			6.8%															
CAPITAL STRUCTURE as of 6/30/07			136.2															
Total Debt \$1074.3 mill. Due in 5 Yrs \$150.0 mill.			23.2															
LT Debt \$1040.1 mill. LT Interest \$65.0 mill.			40.6%															
(LT interest earned: 3.6x; total interest coverage: 3.4x)			54.4%															
Pension Assets-12/06 \$126.5 mill.			44.8%															
Oblig. \$178.3 mill.			427.2															
Pfd Stock None			534.5															
Common Stock 132,967,789 shares as of 7/23/07			7.4%															
MARKET CAP: \$3.0 billion (Mid Cap)			11.9%															
CURRENT POSITION (\$MILL.)			12.0%															
Cash Assets			3.6%															
Receivables			4.5%															
Inventory (AvgCst)			4.3%															
Other			4.7%															
Current Assets			5.1%															
Accts Payable			5.2%															
Debt Due			4.2%															
Other			4.6%															
Current Liab.			4.9%															
Fix. Chg. Cov.			5.6%															
ANNUAL RATES			3.7%															
of change (per sh)			70%															
Revenues			64%															
"Cash Flow"			65%															
Earnings			60%															
Dividends			5.1%															
Book Value			5.2%															
Cal-endar			5.9%															
2004			5.9%															
2005			5.9%															
2006			5.9%															
2007			5.9%															
2008			5.9%															
EARNINGS PER SHARE A			5.9%															
Cal-endar			5.9%															
2004			5.9%															
2005			5.9%															
2006			5.9%															
2007			5.9%															
2008			5.9%															
QUARTERLY REVENUES (\$ mill.)			5.9%															
Cal-endar			5.9%															
2004			5.9%															
2005			5.9%															
2006			5.9%															
2007			5.9%															
2008			5.9%															
EARNINGS PER SHARE A			5.9%															
Cal-endar			5.9%															
2004			5.9%															
2005			5.9%															
2006			5.9%															
2007			5.9%															
2008			5.9%															
QUARTERLY DIVIDENDS PAID B			5.9%															
Cal-endar			5.9%															
2003			5.9%															
2004			5.9%															
2005			5.9%															
2006			5.9%															
2007			5.9%															
2008			5.9%															

to Buy  
to Sell  
Hld's(000)

4Q2006	10Q2007	20Q2007
122	108	109
91	95	109
51814	56295	64821

Percent shares traded

15	10	5
----	----	---

% TOT. RETURN 9/07

THIS STOCK	VL ARITH. INDEX
1 yr. 5.5	15.7
3 yr. 44.6	50.1
5 yr. 106.8	157.0

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10-12	
Revenues per sh	5.35
"Cash Flow" per sh	1.80
Earnings per sh A	1.05
Div'd Decl'd per sh B	.70
Cap'l Spending per sh	2.30
Book Value per sh	9.30
Common Shs Outst'g C	140.00
Avg Ann'l P/E Ratio	23.0
Relative P/E Ratio	1.55
Avg Ann'l Div'd Yield	2.9%

CAPITAL STRUCTURE as of 6/30/07

Total Debt \$1074.3 mill. Due in 5 Yrs \$150.0 mill.

LT Debt \$1040.1 mill. LT Interest \$65.0 mill.

(LT interest earned: 3.6x; total interest coverage: 3.4x)

Pension Assets-12/06 \$126.5 mill.

Oblig. \$178.3 mill.

Pfd Stock None

Common Stock 132,967,789 shares as of 7/23/07

MARKET CAP: \$3.0 billion (Mid Cap)

CURRENT POSITION (\$MILL.)

2005	2006	6/30/07
11.9	44.0	11.5
62.7	72.1	89.4
7.8	10.2	9.9
7.6	8.4	8.3
90.0	134.7	119.1
55.5	49.4	26.7
163.1	150.4	34.2
44.7	55.8	223.9
263.3	255.6	284.8
377%	360%	360%

ANNUAL RATES of change (per sh)

Past 10 Yrs	Past 5 Yrs	Est'd '04-'06 to '10-'12
7.5%	8.5%	6.0%
10.0%	9.0%	7.0%
9.0%	8.0%	7.5%
6.5%	7.0%	9.5%
9.5%	11.0%	6.5%

Cal-endar

QUARTERLY REVENUES (\$ mill.)	Full Year
Mar.31 Jun.30 Sep.30 Dec.31	
2004 99.8 106.5 120.3 115.4	442.0
2005 114.0 123.1 136.8 122.9	496.8
2006 118.0 131.7 147.0 136.8	533.5
2007 137.3 150.6 165 157.1	610
2008 145 165 185 155	650

Cal-endar

EARNINGS PER SHARE A	Full Year
Mar.31 Jun.30 Sep.30 Dec.31	
2004 .13 .14 .20 .17	.64
2005 .15 .17 .22 .17	.71
2006 .13 .17 .21 .19	.70
2007 .13 .18 .25 .24	.80
2008 .20 .24 .24 .22	.90

Cal-endar

QUARTERLY DIVIDENDS PAID B	Full Year
Mar.31 Jun.30 Sep.30 Dec.31	
2003 .084 .084 .084 .09	.34
2004 .09 .09 .09 .098	.37
2005 .098 .098 .098 .107	.40
2006 .107 .107 .115 .115	.44
2007 .115 .115 .125	
2008	

BUSINESS: Aqua America, Inc. is the holding company for water and wastewater utilities that serve approximately 2.8 million residents in Pennsylvania, Ohio, North Carolina, Illinois, Texas, New Jersey, Florida, Indiana, and five other states. Divested three of four non-water businesses in '91; telemarketing group in '93; and others. Acquired AquaSource, 7/03; Consumers Water, 4/99; and

others. Water supply revenues '06: residential, 60%; commercial, 14%; industrial & other, 26%. Officers and directors own 1.2% of the common stock (4/07 Proxy). Chairman & Chief Executive Officer: Nicholas DeBenedictis. Incorporated: Pennsylvania. Address: 762 West Lancaster Avenue, Bryn Mawr, Pennsylvania 19010. Telephone: 610-525-1400. Internet: www.aquaamerica.com.

Aqua America continues to be active on the acquisition front. So far this year, the company has completed 14 purchases that have expanded its reach to new areas of Texas, Pennsylvania, Illinois, and Florida. These additions have also added approximately 35,000 new customers. Looking ahead, we expect that management will continue to aggressively seek further expansion opportunities. Aqua possesses a good track record in regards to acquisitions, and we assume that any additional purchases would benefit revenues and profits over the next few years.

The company will soon release its September-period financial results. For the quarter, Aqua likely posted share earnings of \$0.25, almost 20% better than the year-earlier period. Its recent acquisitions, coupled with rate hikes in several states, likely led to the strong results. We expect that the company will be able to implement additional rate hikes over the next few months, and for the year Aqua will likely register a share-net gain of about 14%. Looking ahead, The prospects for 2008 and beyond appear solid. In our view, recent acquisitions should help Aqua increase its revenues annually at a mid-single-digit rate. Furthermore, additional rate hikes will likely lead to the operating margin widening and help advance share earnings over the next few years. In sum, we estimate that annual share net will advance by 5%-10% out to the 2010-2012 period.

These shares do not stand out for the short or long term. Although we estimate that Aqua America will register 14% and 13% share-net gains in 2007 and 2008, respectively, our Timeliness Ranking System suggests that this issue will lag the year-ahead market. In addition, even though the company possesses solid growth prospects out to 2010-2012, this stock already trades well within our projected Target Price Range for that timeframe, limiting appreciation potential. That said, our earnings estimates would likely be enhanced if WTR can complete some more acquisitions over the next few years. Lastly, although Aqua has raised its quarterly dividend every year over the past decade, income-oriented investors can probably find better options elsewhere.

Ian Gendler

October 26, 2007

**CALIFORNIA WATER** NYSE-CWT

RECENT  
PRICE **41.41**

P/E RATIO	26.2	(Trailing: 29.0 Median: 20.0)
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RELATIVE P/E RATIO	1.42
--------------------	------

DIV'D  
YLD **2.8%**

**VALUE  
LINE**

<b>TIMELINESS</b>	<b>3</b>	Raised 10/26/07
<b>SAFETY</b>	<b>3</b>	Lowered 7/27/07
<b>TECHNICAL</b>	<b>3</b>	Raised 8/17/07
<b>BETA</b>	.95	(1.00 = Market)

High:	21.9	29.6
Low:	16.3	18.6

**LEGENDS**

— 1.33 x Dividends p sh  
divided by Interest Rate

.... Relative Price Strength

2-for-1 split 1/98

Options: No

*Shaded area indicates recession*

2010-12 PROJECTIONS			
	Price	Gain	Ann'l Total Return
High	55	(+35%)	10%
Low	35	(-15%)	-1%

[illegible]

	4Q2006	1Q2007	2Q2007
to Buy	65	51	54
to Sell	26	39	43
Hld's ('000)	8338	8626	9544

1991	1992	1993	1994
11.18	12.29	13.34	12.59
1.98	1.92	2.25	2.02
1.21	1.09	1.35	1.22
.90	.93	.96	.99
3.03	3.09	2.53	2.26
10.35	10.51	10.90	11.56
11.38	11.38	11.38	12.49
11.2	14.1	13.6	14.1
.72	.86	.80	.92
6.6%	6.1%	5.2%	5.8%

1995	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008
13.17	14.48	15.48	14.76	15.96	16.16	16.26	17.33	16.37	17.18	17.44	16.20	17.60	18.60
2.07	2.50	2.92	2.60	2.75	2.52	2.20	2.65	2.51	2.83	3.03	2.71	3.20	3.40
1.17	1.51	1.83	1.45	1.53	1.31	.94	1.25	1.21	1.46	1.47	1.34	1.55	1.70
1.02	1.04	1.06	1.07	1.09	1.10	1.12	1.12	1.12	1.13	1.14	1.15	1.16	1.17
2.17	2.83	2.61	2.74	3.44	2.45	4.09	5.82	4.39	3.73	5.14	5.05	4.35	4.50
11.72	12.22	13.00	13.38	13.43	12.90	12.95	13.12	14.44	15.66	15.79	18.15	19.05	19.50
12.54	12.62	12.62	12.62	12.94	15.15	15.18	15.18	16.93	18.37	18.39	20.66	21.00	21.50
13.7	11.9	12.6	17.8	17.8	19.6	27.1	19.8	22.1	20.1	24.9	29.2	Bold figures are Value Line estimates	
.92	.75	.73	.93	1.01	1.27	1.39	1.08	1.26	1.06	1.33	1.58		
6.4%	5.8%	4.6%	4.2%	4.0%	4.3%	4.4%	4.5%	4.2%	3.9%	3.1%	2.9%		

© VALUE LINE PUB., INC.	10-12
Revenues per sh	21.30
"Cash Flow" per sh	3.90
Earnings per sh <sup>A</sup>	2.15
Div'd Decl'd per sh <sup>B</sup>	1.20
Cap'l Spending per sh	4.35
Book Value per sh <sup>C</sup>	21.30
Common Shs Outst'g <sup>D</sup>	23.00
Avg Ann'l P/E Ratio	21.0
Relative P/E Ratio	1.40
Avg Ann'l Div'd Yield	2.7%

**CAPITAL STRUCTURE as of 6/30/07**  
**Total Debt \$293.1 mill. Due in 5 Yrs \$12.0 mill.**  
**LT Debt \$291.3 mill. LT Interest \$21.0 mill.**

(LT interest earned: 3.7x; total int. cov.: 3.6x)

**Pension Assets-12/06** \$78.4 mill.  
**Oblig.** \$109.1 mill.  
**Pfd Stock** \$3.5 mill. **Pfd Div'd** \$.15 mill.  
 139,000 shares, 4.4% cumulative (\$25 par).

**Common Stock** 20,666,469 shs.  
as of 8/1/07  
**MARKET CAP:** \$850 million (Small Cap)

CURRENT POSITION	2005	2006	6
------------------	------	------	---

Cash Assets	9.5	60.3
Other	42.7	49.3
Current Assets	52.2	109.6
Accts Payable	36.1	33.1
Debt Due	1.1	1.8
Other	39.6	35.3
Current Liab	76.8	70.2

**BUSINESS:** California Water Service Group provides regulated and nonregulated water service to over 2 million people (483,900 customers) in 83 communities in California, Washington, New Mexico, and Hawaii. Main service areas: San Francisco Bay area, Sacramento Valley, Salinas Valley, San Joaquin Valley & parts of Los Angeles. Acquired National Utility Company (5/04); Rio Grande

Corp. (11/00). Revenue breakdown, '06: residential, 70%; business, 18%; public authorities, 5%; industrial, 5%; other, 2%. '06 reported deprec. rate: 3.3%. Has roughly 870 employees. Chairman: Robert W. Foy. President & CEO: Peter C. Nelson. Inc.: Delaware. Address: 1720 North First Street, San Jose, California 95112-4598. Telephone: 408-367-8200. Internet: [www.calwater.com](http://www.calwater.com).

ANNUAL RATES	Past 10 Yrs.	Past 5 Yrs.	Est'd '04-'06 to '10-'12
of change (per sh)			
Revenues	2.5%	1.0%	4.0%
"Cash Flow"	2.5%	3.0%	5.5%
Earnings	1.0%	2.5%	7.0%
Dividends	1.0%	.5%	1.0%
Book Value	3.5%	5.0%	4.5%

**California Water Service Group is doing well.** The water utility provider reported earnings of \$0.37 a share in the second quarter, 19% better than last year. Revenues increased 18%, to \$96 million thanks to favorable weather conditions and higher usage rates. Earnings comparisons would have been even better if not for higher water production and maintenance costs.

ing a weather normalization clause. That said, we currently look for earnings growth of 15%-plus this year.

**Possible changes to the regulatory process augur well for the company going forward.** California Water files general rate cases to recover nonoperational costs for eight districts every year, making it dependent on the California Public Utilities Commission (CPUC), which is in charge of keeping a balance between consumers and utility companies operating in the Golden State. However, the board has ruled that the company can now file one GRC for the entire company every three years beginning in 2009, which should help to reduce potential regulatory lag. Authorization of other parts of the Water Action Plan would further streamline the filing process and possibly even reduce earnings volatility by invoking

**Capital requirements pose a problem, though.** Infrastructure costs have climbed considerably since the start of the decade and are likely to remain high for the foreseeable future, given the infrastructure repairs and more stringent EPA requirements that have arose. However, California is in no shape to meet these challenges on its own, with less than \$30 million in cash on the balance sheet at the end of the most recent quarter. As such, CWT will probably have to issue more shares and/or debt in order to foot the bill. We look for increased interest expense and a higher share count to slow earnings growth a bit in 2008.

**Investors have better options elsewhere.** California shares have appreciated 13% since our July report and are now trading well within our 2010-2012 Target Price Range. Meanwhile, the increase in share price, coupled with the capital constraints we envision, limit this issue's dividend yield.

Andre J. Costanza

October 26, 2007

**(A)** Basic EPS. Excl. nonrecurring gain (loss): '00, (7¢); '01, 4¢; '02, 8¢. Next earnings report due early November.

**(B)** Dividends historically paid in mid-Feb., May, Aug., and Nov. ■ Div'd reinvestment plan available.

(C) Incl. deferred charges. In '06: \$69.5 mill.  
\$3.36/sh.  
(D) In millions, adjusted for split.

Company's Financial Strength	B++
Stock's Price Stability	70
Price Growth Persistence	75
Earnings Predictability	70

**AMER. STATES WATER** NYSE-AWR

RECENT PRICE **42.76** P/E RATIO **25.0** (Trailing: 31.7  
Median: 18.0)

RELATIVE P/E RATIO	1.36	DIV'D YLD	2.2%
--------------------	------	-----------	------

**VALUE  
LINE**

--	--

<b>TIMELINESS</b>	<b>3</b>	Raised 8/17/00
<b>SAFETY</b>	<b>3</b>	New 2/4/00
<b>TECHNICAL</b>	<b>3</b>	Raised 9/7/07
<b>BETA</b>	.90	(1.00 = Market)

High:	16.1	17.1
Low:	12.5	13.5

**LEGENDS**

— 1.25 x Dividends p sh  
divided by Interest Rate

.... Relative Price Strength

3-for-2 split 6/02

Options: No

*Shaded area indicates recession*

2010-12 PROJECTIONS			
	Price	Gain	Ann'l Ret
High	55	(+30%)	9
Low	35	(-20%)	-2

	D	J	F	M	A	M	J
to Buy	0	0	0	0	0	0	0
Options	0	0	0	0	0	2	1
to Sell	0	0	0	0	0	2	1

Institutional Decisions			
	4Q2006	1Q2007	2Q2007
to Buy	59	57	57
to Sell	39	47	46
Hld's(000)	8944	9282	9344

1991	1992	1993	1994
9.15	10.10	9.27	10.00
1.78	1.81	1.67	1.70
1.19	1.15	1.11	1.10
.73	.77	.79	.75
2.77	2.31	1.90	2.00
8.39	8.85	9.95	10.00
9.91	9.96	11.71	11.70
8.8	10.6	13.4	13.4
.56	.64	.79	.79
7.0%	6.3%	5.3%	5.3%

1995	1996	1997	1998
11.03	11.37	11.44	11.50
1.75	1.75	1.85	1.85
1.03	1.13	1.04	1.04
.81	.82	.83	.83
2.19	2.40	2.58	2.58
10.29	11.01	11.24	11.24
11.77	13.33	13.44	13.44
11.6	12.6	14.5	14.5
.78	.79	.84	.84
6.7%	5.8%	5.5%	5.5%

	Target 2010	Price 2011	Range 2012
			80
			60
			50
			40
			30
			25
			20
			15
			10
			7.5
TOT. RETURN 9/07			
THIS STOCK	4.5	15.7	
	70.4	50.1	
	72.5	157.0	

**CAPITAL STRUCTURE as of 6/30/07**  
**Total Debt** \$296.7 mill. **Due in 5 Yrs** \$20.0 mill.  
**LT Debt** \$267.6 mill. **LT Interest** \$24.0 mill.  
 (LT interest earned: 3.3x: total interest coverage: 3.1x) (48% of Cap'l)

**Leases, Uncapitalized:** None  
**Pension Assets-12/06** \$64.3 mill.  
**Oblig.** \$86.1 mill.  
**Pfd Stock** None. **Pfd Div'd** None.

**Common Stock** 17,113,878 shs.  
**MARKET CAP:** \$725 million (Small Cap)

153.8	148.1	173.4	184.0	197.5	209.2	212.7	228.0
14.1	14.6	16.1	18.0	20.4	20.3	11.9	16.5
41.1%	40.9%	46.0%	45.7%	43.0%	38.9%	43.5%	37.4%
--	--	--	--	--	--	--	--
43.0%	43.6%	51.0%	47.5%	54.9%	52.0%	52.0%	47.7%
56.3%	55.7%	48.4%	51.9%	44.7%	48.0%	48.0%	52.3%
268.4	277.1	328.2	371.1	447.6	444.4	442.3	480.4
383.6	414.8	449.6	509.1	539.8	563.3	602.3	664.2
6.9%	7.0%	6.6%	6.4%	6.1%	6.5%	4.6%	5.2%
9.2%	9.4%	10.0%	9.2%	10.1%	9.5%	5.6%	6.6%
9.2%	9.4%	10.1%	9.3%	10.1%	9.5%	5.6%	6.6%
1.8%	2.1%	2.9%	3.0%	3.6%	3.3%	NMF	1.0%
80%	78%	72%	68%	65%	65%	113%	84%

236.2	268.6	305	320	Revenues (\$mill)	400
22.5	23.1	30.0	34.0	Net Profit (\$mill)	45.0
47.0%	40.5%	41.0%	41.0%	Income Tax Rate	42.0%
--	--	Nil	Nil	AFUDC % to Net Profit	Nil
50.4%	48.6%	47.5%	48.0%	Long-Term Debt Ratio	50.0%
49.6%	51.4%	52.5%	52.0%	Common Equity Ratio	50.0%
532.5	551.6	585	615	Total Capital (\$mill)	830
713.2	750.6	780	805	Net Plant (\$mill)	915
5.4%	6.0%	7.0%	7.5%	Return on Total Cap'l	7.0%
8.5%	8.1%	10.0%	10.5%	Return on Shr. Equity	11.5%
8.5%	8.1%	10.0%	10.5%	Return on Com Equity	11.5%
2.8%	2.7%	4.5%	5.0%	Retained to Com Eq	5.5%
67%	67%	55%	51%	All Div'ds to Net Prof	51%

CURRENT POSITION (\$MILL.)	2005	2006	6/30/07
Cash Assets	13.0	3.2	5.3
Receivables	13.3	14.8	15.7
Inventory (Avg Cst)	1.4	1.6	1.7
Other	41.2	44.8	47.5
Current Assets	68.9	64.4	70.2
Accts Payable	19.7	24.0	25.0
Debt Due	27.6	32.6	29.1
Other	30.3	29.3	29.8
Current Liab.	77.6	85.9	83.9
Fix. Chg. Cov.	413%	268%	320%

**BUSINESS:** American States Water Co. operates as a holding company. Through its principal subsidiary, Golden State Water Company, it supplies water to more than 250,000 customers in 75 communities in 10 counties. Service areas include the greater metropolitan areas of Los Angeles and Orange Counties. The company also provides electric utility services to nearly 23,250 custom-

ers in the city of Big Bear Lake and in areas of San Bernardino County. Acquired Chaparral City Water of Arizona (10/00). Has roughly 555 employees. Officers & directors own 3.1% of common stock (4/07 Proxy). Chairman: Lloyd Ross. President & CEO: Floyd Wicks. Incorporated: CA. Addr.: 630 East Foothill Boulevard, San Dimas, CA 91773. Tele.: 909-394-3600. Web: [www.aswater.com](http://www.aswater.com).

ANNUAL RATES of change (per sh)	Past 10 Yrs.	Past 5 Yrs.	Est'd to '10-'12
Revenues	3.0%	2.5%	4.0%
"Cash Flow"	4.0%	2.0%	6.0%
Earnings	1.5%	-0.5%	9.5%
Dividends	1.0%	1.0%	3.5%
Book Value	4.0%	4.5%	6.0%

**favorable weather in the second quarter.** Indeed, warm and dry conditions, particularly in California, where the water utility does most of its business, resulted in higher usage rates and 26% higher revenues. As a result, the company

potential improvements mentioned above, American is still at the mercy of regulatory authorities. As a result, it has been targeting military bases as a way to limit its dependence on state regulators. And it is having some success. American has in-

Calendar	QUARTERLY REVENUES (\$ mill.)				Full Year
	Mar.31	Jun. 30	Sep. 30	Dec. 31	
2004	46.7	59.3	69.0	53.0	228.
2005	49.8	60.5	68.1	57.8	236.
2006	64.3	63.0	75.0	66.3	268.
2007	72.3	79.2	<b>82.5</b>	<b>71.0</b>	<b>305</b>
2008	<b>77.0</b>	<b>82.0</b>	<b>86.0</b>	<b>75.0</b>	<b>320</b>

posted 17% share-net improvement. **A better regulatory environment will likely be the catalyst heading forward, though.** All utilities are dependent on government administrators and their rulings, and American is no different. Although the California Public Utilities

ked two significant deals with military bases since our last report. The first is a 50-year deal, totaling \$143 million, to operate and maintain the water and wastewater systems at Fort Jackson, South Carolina. The second is a 50-year agreement to do the same at Fort Bragg,

Calendar	EARNINGS PER SHARE <sup>A</sup>				Full Year
	Mar.31	Jun. 30	Sep. 30	Dec. 31	
2004	.08	.30	.52	.15	1.05
2005	.22	.34	.47	.29	1.32
2006	.35	.36	.32	.30	1.33
2007	.31	.42	.54	.38	1.65
2008	.37	.45	.57	.41	1.80

Commission (CPUC), the Golden State's advisory board, has been far more constructive since Governor Schwarzenegger took over in late 2003, we think that things may get even better. The CPUC is currently considering authorizing some of the proposals included in the Water Action

North Carolina. The latter deal is worth \$575 million and will include periodic price redetermination adjustments and modifications for changes in circumstances. We view the foray into military bases as a good move.

**Nevertheless, the stock lacks invest-**

Calendar	QUARTERLY DIVIDENDS PAID <sup>B</sup>				Full Year
	Mar.31	Jun.30	Sep.30	Dec.31	
2003	.221	.221	.221	.221	.88
2004	.221	.221	.221	.225	.89
2005	.225	.225	.225	.225	.90
2006	.225	.225	.225	.235	.91
2007	.235	.235	.235		

Plan of 2005, which would streamline the decision-making process and perhaps even effecting a weather normalization clause. We currently look for earnings growth of 24% this year and 9% in 2008. **Still, the company has been aggressively looking to increase its exposure**

**ment appeal.** The share price has appreciated 19% since our July review and factors in the bulk of the gains we expect out to late decade. Income-minded investors have better options, also, given the capital constraints we suspect the company faces.

*Andre J. Costanza*                      *October 26, 2007*

**(A)** Primary earnings. Excludes nonrecurring gains: '91, 73¢; '92, 13¢; '04, 14¢; '05, 25¢; '06, 6¢. Next earnings report due early November.

Dividends historically paid in early March, May, September, December. ■ Div'd reinvestment plan available.

Company's Financial Strength	B++
Stock's Price Stability	75
Price Growth Persistence	75
Earnings Predictability	60

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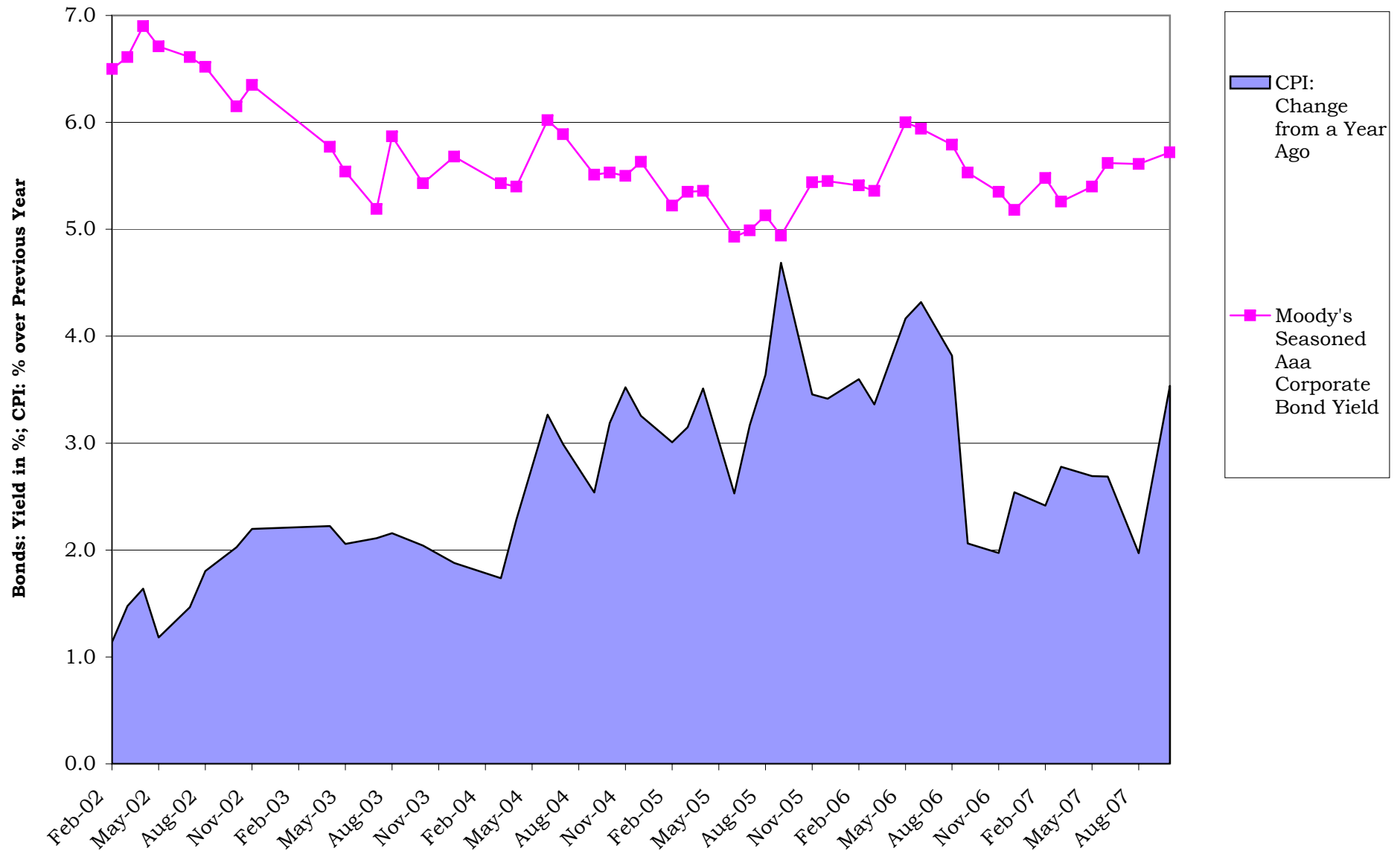
SJW CORP. NYSE-SJW				RECENT PRICE	34.76	TRAILING P/E RATIO	31.6	RELATIVE P/E RATIO	1.61	DIV'D YLD	1.7%	VALUE LINE																					
RANKS				20.17 9.54	20.33 15.83	17.83 11.58	15.07 12.67	14.95 12.57	19.64 14.60	27.80 16.07	45.33 21.16	43.00 27.65	High Low																				
PERFORMANCE	3	Average	<div>LEGENDS</div> <div>— 12 Mos Mov Avg</div> <div>.... Rel Price Strength</div> <div>3-for-1 split 3/04</div> <div>2-for-1 split 3/06</div> <div>Shaded area indicates recession</div>											45																			
Technical	4	Below Average												30																			
SAFETY	3	Average												22.5																			
BETA	.85	(1.00 = Market)												13																			
Financial Strength	B+												9																				
Price Stability	60												6																				
Price Growth Persistence	60												4																				
Earnings Predictability	85												3																				
© VALUE LINE PUBLISHING, INC.				1999	2000	2001	2002	2003	2004	2005	2006	2007	2008/2009																				
SALES PER SH				6.40	6.74	7.45	7.97	8.20	9.14	9.86	10.35	--																					
"CASH FLOW" PER SH				1.43	1.23	1.49	1.55	1.75	1.89	2.21	2.38	--																					
EARNINGS PER SH				.87	.58	.77	.78	.91	.87	1.12	1.19	1.19 <sup>A,B</sup>	1.48 <sup>C,NA</sup>																				
DIV'DS DECL'D PER SH				.40	.41	.43	.46	.49	.51	.53	.57	--																					
CAP'L SPENDING PER SH				1.77	1.89	2.63	2.06	3.41	2.31	2.83	3.87	--																					
BOOK VALUE PER SH				7.88	7.90	8.17	8.40	9.11	10.11	10.72	12.48	--																					
COMMON SHS OUTST'G (MILL)				18.27	18.27	18.27	18.27	18.27	18.27	18.27	18.28	--																					
AVG ANN'L P/E RATIO				15.5	33.1	18.5	17.3	15.4	19.6	19.7	23.5	29.2	23.5/NA																				
RELATIVE P/E RATIO				.88	2.15	.95	.94	.88	1.04	1.04	1.27	--																					
AVG ANN'L DIV'D YIELD				3.0%	2.1%	3.0%	3.4%	3.5%	3.0%	2.4%	2.0%	--																					
SALES (\$MILL)				117.0	123.2	136.1	145.7	149.7	166.9	180.1	189.2	--	<b>Bold figures are consensus earnings estimates and, using the recent prices, P/E ratios.</b>																				
OPERATING MARGIN				33.2%	30.2%	64.4%	63.7%	56.0%	56.4%	55.9%	57.0%	--																					
DEPRECIATION (\$MILL)				10.2	11.9	13.2	14.0	15.2	18.5	19.7	21.3	--																					
NET PROFIT (\$MILL)				15.9	10.7	14.0	14.2	16.7	16.0	20.7	22.2	--																					
INCOME TAX RATE				35.9%	41.0%	34.5%	40.4%	36.2%	42.1%	41.6%	40.8%	--																					
NET PROFIT MARGIN				13.6%	8.7%	10.3%	9.8%	11.2%	9.6%	11.5%	11.7%	--																					
WORKING CAP'L (\$MILL)				d3.0	d11.4	d3.8	d4.9	12.0	13.0	10.8	22.2	--																					
LONG-TERM DEBT (\$MILL)				90.0	90.0	110.0	110.0	139.6	143.6	145.3	163.6	--																					
SHR. EQUITY (\$MILL)				143.9	144.3	149.4	153.5	166.4	184.7	195.9	228.2	--																					
RETURN ON TOTAL CAP'L				8.2%	5.9%	6.7%	6.9%	6.9%	6.5%	7.6%	7.0%	--																					
RETURN ON SHR. EQUITY				11.0%	7.4%	9.4%	9.3%	10.0%	8.7%	10.6%	9.7%	--																					
RETAINED TO COM EQ				5.9%	2.2%	4.1%	3.8%	4.7%	3.6%	5.6%	5.2%	--																					
ALL DIV'DS TO NET PROF				46%	70%	56%	59%	53%	58%	47%	46%	--																					
<sup>A</sup> No. of analysts changing earn. est. in last 13 days: 0 up, 0 down, consensus 5-year earnings growth 10.0% per year. <sup>B</sup> Based upon one analyst's estimate. <sup>C</sup> Based upon one analyst's estimate.																																	
ANNUAL RATES						ASSETS (\$mill.)			2005			2006			6/30/07																		
of change (per share)						1 Yr.			5 Yrs.			1 Yr.			5 Yrs.																		
Sales						7.5%			5.0%			7.5%			5.0%																		
"Cash Flow"						9.5%			7.5%			9.5%			7.5%																		
Earnings						7.5%			6.0%			7.5%			6.0%																		
Dividends						5.5%			6.5%			5.5%			6.5%																		
Book Value						7.0%			16.5%			7.0%			16.5%																		
Fiscal Year						QUARTERLY SALES (\$mill.)			1Q			2Q			3Q			4Q			Full Year												
12/31/05						33.3			44.8			58.5			43.5			180.1			180.1												
12/31/06						33.7			47.9			63.1			44.5			189.2			189.2												
12/31/07						39.0			55.1																								
12/31/08																																	
Fiscal Year						EARNINGS PER SHARE			1Q			2Q			3Q			4Q			Full Year												
12/31/04						.09			.27			.30			.21			.87			.87												
12/31/05						.15			.31			.53			.13			1.12			1.12												
12/31/06						.14			.35			.48			.22			1.19			1.19												
12/31/07						.11			.29			.47			.29																		
12/31/08						.21																											
Cal-endar						QUARTERLY DIVIDENDS PAID			1Q			2Q			3Q			4Q			Full Year												
2004						.128			.128			.128			.128			.51			.51												
2005						.134			.134			.134			.134			.54			.54												
2006						.141			.141			.141			.141			.56			.56												
2007						.151			.151			.151																					
INSTITUTIONAL DECISIONS																																	
4Q'06						1Q'07			2Q'07																								
to Buy						33			35			40																					
to Sell						22			23			27																					
Hld's(000)						7341			7905			8906																					
Pension Liability \$26.3 mill. in '06 vs. \$13.2 mill. in '05																																	
Pfd Stock None																																	
Pfd Div'd Paid None																																	
Common Stock 18,333,483 shares																																	
(54% of Cap'l)																																	
TOTAL SHAREHOLDER RETURN														Dividends plus appreciation as of 9/30/2007																			
3 Mos.														6 Mos.					1 Yr.					3 Yrs.					5 Yrs.				
3.07%														-14.82%					16.25%					121.26%					200.35%				

MIDDLESEX WATER NDQ-MSEX				RECENT PRICE	18.50	TRAILING P/E RATIO	23.4	RELATIVE P/E RATIO	1.19	DIV'D YLD	3.7%	VALUE LINE								
RANKS				19.75 10.50	16.97 12.50	18.73 14.69	20.04 13.73	21.23 15.77	21.81 16.65	23.47 17.07	20.50 16.50	20.24 16.93	High Low							
PERFORMANCE	2	Above Average	<div>LEGENDS</div> <div>— 12 Mos Mov Avg</div> <div>.... Rel Price Strength</div> <div>3-for-2 split 1/02</div> <div>4-for-3 split 11/03</div> <div>Shaded area indicates recession</div>										18							
Technical	3	Average											13							
SAFETY	3	Average											8							
BETA	.80	(1.00 = Market)											5							
Financial Strength	B+												4							
Price Stability	85											3								
Price Growth Persistence	50											2								
Earnings Predictability	80											650 VOL. (thous.)								
© VALUE LINE PUBLISHING, INC.				1999	2000	2001	2002	2003	2004	2005	2006	2007	2008/2009							
SALES PER SH	5.35	5.39	5.87	5.98	6.12	6.25	6.44	6.16	--	--	--	--								
"CASH FLOW" PER SH	1.19	.99	1.18	1.20	1.15	1.28	1.33	1.33	--	--	--	--								
EARNINGS PER SH	.76	.51	.66	.73	.61	.73	.71	.82	--	--	--	--								
DIV'DS DECL'D PER SH	.60	.61	.62	.63	.65	.66	.67	.68	--	--	--	--								
CAP'L SPENDING PER SH	2.33	1.32	1.25	1.59	1.87	2.54	2.18	2.31	--	--	--	--								
BOOK VALUE PER SH	6.95	6.98	7.11	7.39	7.60	8.38	8.60	9.82	--	--	--	--								
COMMON SHS OUTST'G (MILL)	10.00	10.11	10.17	10.36	10.48	11.36	11.58	13.17	--	--	--	--								
AVG ANN'L P/E RATIO	17.6	28.7	24.6	23.5	30.0	26.4	27.4	22.7	22.8	--	--	--	21.0/NA							
RELATIVE P/E RATIO	1.00	1.87	1.26	1.28	1.71	1.39	1.45	1.23	--	--	--	--								
AVG ANN'L DIV'D YIELD	4.4%	4.2%	3.8%	3.7%	3.5%	3.4%	3.5%	3.7%	--	--	--	--								
SALES (\$MILL)	53.5	54.5	59.6	61.9	64.1	71.0	74.6	81.1	--	--	--	--	<b>Bold figures are consensus earnings estimates and, using the recent prices, P/E ratios.</b>							
OPERATING MARGIN	33.9%	32.2%	47.2%	47.1%	44.0%	44.4%	44.4%	47.4%	--	--	--	--								
DEPRECIATION (\$MILL)	4.3	4.9	5.3	5.0	5.6	6.4	7.2	7.8	--	--	--	--								
NET PROFIT (\$MILL)	7.9	5.3	7.0	7.8	6.6	8.4	8.5	10.0	--	--	--	--								
INCOME TAX RATE	28.8%	33.1%	34.8%	33.3%	32.8%	31.1%	27.6%	33.4%	--	--	--	--								
NET PROFIT MARGIN	14.7%	9.7%	11.7%	12.5%	10.3%	11.9%	11.4%	12.4%	--	--	--	--								
WORKING CAP'L (\$MILL)	6.8	d2.7	d.9	d9.3	d13.3	d11.8	d4.5	2.8	--	--	--	--								
LONG-TERM DEBT (\$MILL)	82.3	81.1	88.1	87.5	97.4	115.3	128.2	130.7	--	--	--	--								
SHR. EQUITY (\$MILL)	74.6	74.7	76.4	80.6	83.7	99.2	103.6	133.3	--	--	--	--								
RETURN ON TOTAL CAP'L	6.4%	4.9%	5.6%	6.0%	5.0%	5.1%	5.0%	5.1%	--	--	--	--								
RETURN ON SHR. EQUITY	10.6%	7.1%	9.1%	9.6%	7.9%	8.5%	8.2%	7.5%	--	--	--	--								
RETAINED TO COM EQ	2.5%	NMF	.5%	1.3%	NMF	.9%	.5%	1.2%	--	--	--	--								
ALL DIV'DS TO NET PROF	78%	121%	94%	87%	106%	90%	94%	84%	--	--	--	--								
<sup>A</sup> No. of analysts changing earn. est. in last 13 days: 0 up, 0 down, consensus 5-year earnings growth 8.0% per year. <sup>B</sup> Based upon 2 analysts' estimates. <sup>C</sup> Based upon 2 analysts' estimates.																				
ANNUAL RATES				ASSETS (\$mill.)			INDUSTRY: Water Utility													
of change (per share)				2005	2006	6/30/07	<b>BUSINESS:</b> Middlesex Water Company engages in the ownership and operation of regulated water utility systems in New Jersey and Delaware, as well as a regulated wastewater utility in New Jersey. It offers contract operations services and a service line maintenance program through its nonregulated subsidiary, Utility Service Affiliates, Inc. The company's water utility system treats, stores, and distributes water for residential, commercial, industrial, and fire prevention purposes. Under a special contract, it also provides water treatment and pumping services to the Township of East Brunswick. Middlesex Water's other New Jersey subsidiaries offer water and wastewater services to residents in Southampton Township. The company's Delaware subsidiaries, Tidewater Utilities, Inc., Southern Shores Water Company, LLC, and Tidewater Environmental Services, Inc., offer water services to retail customers in New Castle, Kent, and Sussex counties. Has 243 employees. Chairman: J. Richard Tompkins. Inc.: NJ. Address: 1500 Ronson Road, P.O. Box 1500, Iselin, NJ 08830. Tel.: (732) 634-1500. Internet: <a href="http://www.middlesexwater.com">http://www.middlesexwater.com</a> .  <i>L. Y.</i>  <i>October 26, 2007</i>													
5 Yrs.				3.0	5.8	2.5														
1 Yr.				11.8	12.6	16.0														
Sales				1.3	1.3	1.4														
"Cash Flow"				.9	1.2	1.7														
Earnings				17.0	20.9	21.6														
Dividends																				
Book Value																				
Fiscal Year	1Q	2Q	3Q	4Q	Full Year															
12/31/05	16.7	18.4	20.8	18.7	74.6															
12/31/06	18.2	21.0	22.6	19.3	81.1															
12/31/07	19.0	21.8																		
12/31/08																				
Fiscal Year	1Q	2Q	3Q	4Q	Full Year															
12/31/04	.09	.16	.29	.19	.73															
12/31/05	.12	.16	.26	.17	.71															
12/31/06	.15	.25	.28	.14	.82															
12/31/07	.13	.24	.30	.14																
12/31/08	.12																			
Cal-endar	1Q	2Q	3Q	4Q	Full Year															
2004	.165	.165	.165	.168	.66															
2005	.168	.168	.168	.17	.67															
2006	.17	.17	.17	.173	.68															
2007	.173	.173	.173																	
INSTITUTIONAL DECISIONS				LONG-TERM DEBT AND EQUITY as of 6/30/07										<b>TOTAL SHAREHOLDER RETURN</b> <i>Dividends plus appreciation as of 9/30/2007</i>						
				Total Debt \$133.4 mill.	Due in 5 Yrs. NA															
				LT Debt \$130.1 mill.																
				Including Cap. Leases NA																
				Leases, Uncapitalized Annual rentals NA	(50% of Cap'l)															
				Pension Liability \$16.4 mill. in '06 vs. \$6.7 mill. in '05																
				Pfd Stock \$4.0 mill.	Pfd Div'd Paid \$.2 mill. (1% of Cap'l)															
				Common Stock 13,200,000 shares	(49% of Cap'l)															
4Q'06				1Q'07	2Q'07		3 Mos.	6 Mos.	1 Yr.	3 Yrs.	5 Yrs.									
to Buy				21	19	26	-0.71%	4.66%	1.03%	16.31%	32.06%									
to Sell				14	14	13														
Hld's(000)				2182	3085	3289														

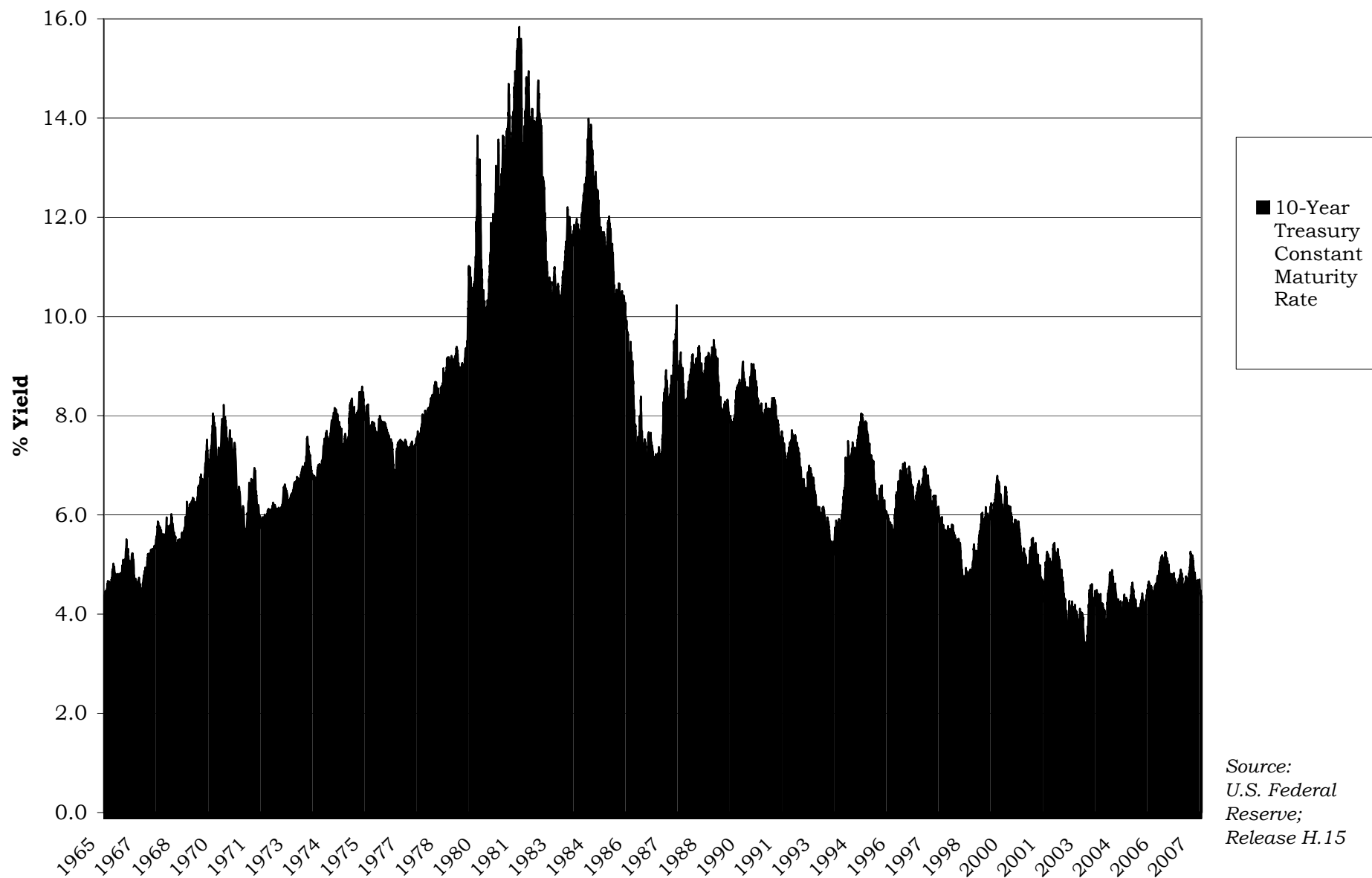
CONN. WATER SERVICES				NDQ--CTWS		RECENT PRICE		24.12		TRAILING P/E RATIO		27.4		RELATIVE P/E RATIO		1.39		DIV'D YLD		3.6%		VALUE LINE																			
RANKS				24.67 12.67		23.50 17.00		32.21 19.50		31.09 20.35		30.41 24.00		29.76 23.83		28.17 21.91		27.71 20.29		25.61 22.52		High Low																			
PERFORMANCE 3 Average				<div>LEGENDS</div> <div>— 12 Mos Mov Avg</div> <div>... Rel Price Strength</div> <div>3-for-2 split 9/98</div> <div>3-for-2 split 9/01</div> <div>Shaded area indicates recession</div>																																					
Technical 3 Average																																									
SAFETY 3 Average																																									
BETA .85 (1.00 = Market)																																									
Financial Strength B+																																									
Price Stability 85																																									
Price Growth Persistence 50																																									
Earnings Predictability 85																																									
© VALUE LINE PUBLISHING, INC.				1999		2000		2001		2002		2003		2004		2005		2006		2007		2008/2009																			
SALES PER SH				5.87		5.70		5.93		5.77		5.91		6.04		5.81		5.68		--																					
"CASH FLOW" PER SH				1.65		1.73		1.78		1.78		1.89		1.91		1.62		1.52		--																					
EARNINGS PER SH				1.03		1.09		1.13		1.12		1.15		1.16		.88		.81		1.00 <sup>A,B</sup>		1.13 <sup>C</sup> /NA																			
DIV'DS DECL'D PER SH				.79		.79		.80		.81		.83		.84		.85		.86		--																					
CAP'L SPENDING PER SH				1.42		1.43		1.86		1.98		1.49		1.58		1.96		1.96		--																					
BOOK VALUE PER SH				8.61		8.92		9.25		10.06		10.46		10.94		11.52		11.60		--																					
COMMON SHS OUTST'G (MILL)				7.26		7.28		7.65		7.94		7.97		8.04		8.17		8.27		--																					
AVG ANN'L P/E RATIO				18.2		18.2		21.5		24.3		23.5		22.9		28.6		29.0		24.1		21.3/NA																			
RELATIVE P/E RATIO				1.04		1.18		1.10		1.33		1.34		1.21		1.51		1.57		--																					
AVG ANN'L DIV'D YIELD				4.2%		4.0%		3.3%		3.0%		3.0%		3.1%		3.4%		3.6%		--																					
SALES (\$MILL)				42.6		41.5		45.4		45.8		47.1		48.5		47.5		46.9		--		Bold figures are consensus earnings estimates and, using the recent prices, P/E ratios.																			
OPERATING MARGIN				48.7%		48.8%		56.1%		57.7%		52.1%		51.0%		48.3%		43.7%		--																					
DEPRECIATION (\$MILL)				4.5		4.7		5.0		5.4		5.9		6.0		6.1		5.9		--																					
NET PROFIT (\$MILL)				7.5		8.0		8.7		8.8		9.2		9.4		7.2		6.7		--																					
INCOME TAX RATE				40.1%		35.7%		36.1%		33.8%		17.9%		22.9%		--		23.5%		--																					
NET PROFIT MARGIN				17.6%		19.2%		19.1%		19.2%		19.5%		19.4%		15.1%		14.3%		--																					
WORKING CAP'L (\$MILL)				d3.8		.3		d3.3		d5.1		d3.9		d.7		13.0		1.2		--																					
LONG-TERM DEBT (\$MILL)				65.4		64.7		64.0		64.8		64.8		66.4		77.4		77.3		--																					
SHR. EQUITY (\$MILL)				63.3		65.7		71.6		80.7		84.2		88.7		94.9		96.7		--																					
RETURN ON TOTAL CAP'L				7.4%		7.6%		7.9%		7.4%		7.5%		7.0%		5.0%		4.9%		--																					
RETURN ON SHR. EQUITY				11.8%		12.1%		12.1%		10.9%		10.9%		10.6%		7.5%		6.9%		--																					
RETAINED TO COM EQ				3.1%		3.2%		3.6%		3.1%		3.2%		3.1%		.3%		NMF		--																					
ALL DIV'DS TO NET PROF				74%		74%		71%		72%		71%		71%		95%		105%		--																					
<sup>A</sup> No. of analysts changing earn. est. in last 13 days: 0 up, 0 down, consensus 5-year earnings growth 15.0% per year. <sup>B</sup> Based upon 2 analysts' estimates. <sup>C</sup> Based upon 2 analysts' estimates.																																									
ANNUAL RATES						ASSETS (\$mill.)						2005		2006		6/30/07		INDUSTRY: Water Utility																							
of change (per share)						5 Yrs.						1 Yr.						<b>BUSINESS:</b> Connecticut Water Service, Inc. primarily operates as a water utility company in Connecticut. It operates through three segments: Water Activities, Real Estate Transactions, and Services and Rentals. The Water Activities segment supplies public drinking water to its customers. The Real Estate Transactions segment involves in the sale of its limited excess real estate holdings. The Services and Rentals segment provides contracted services to water and wastewater utilities and other clients, as well as leases certain of its properties to third parties. This segment's services include contract operations of water and wastewater facilities; Linebacker, its service line protection plan for public drinking water customers; and provision of bulk deliveries of emergency drinking water to businesses and residences via tanker truck. As of December 31, 2006, Connecticut Water supplies water to 83,247 customers in 41 towns throughout Connecticut. Has about 200 employees. Chairman, C.E.O. & President: Eric W. Thornburg, Inc.: CT. Address: 93 West Main Street, Clinton, CT 06413. Tel.: (860) 669-8636. Internet: <a href="http://www.ctwater.com">http://www.ctwater.com</a> .  <i>L. Y.</i>  <i>October 26, 2007</i>																							
Sales						--						-2.5%																													
"Cash Flow"						-0.5%						-6.0%																													
Earnings						-2.5%						-8.0%																													
Dividends						1.0%						1.0%																													
Book Value						5.0%						0.5%																													
Fiscal Year		QUARTERLY SALES (\$mill.)				Full Year		Property, Plant & Equip, at cost						345.0		370.5		--																							
12/31/05		10.9 11.0 14.1 11.5				47.5		Accum Depreciation						97.3		102.4		--																							
12/31/06		10.5 11.4 13.3 11.7				46.9		Net Property						247.7		268.1		272.5																							
12/31/07		13.2 14.4						Other						32.2		32.9		34.5																							
12/31/08								Total Assets						306.0		315.2		322.8																							
Fiscal Year		EARNINGS PER SHARE				Full Year		LIABILITIES (\$mill.)						4.8		6.0		7.0																							
12/31/04		.24 .26 .47 .19				1.16		Accts Payable						7.1		5.3		9.2																							
12/31/05		.24 .15 .41 .08				.88		Debt Due						1.3		1.7		1.7																							
12/31/06		.21 .12 .45 .03				.81		Current Liab						13.2		13.0		17.9																							
12/31/07		.18 .22 .40 .22						LONG-TERM DEBT AND EQUITY as of 6/30/07																																	
12/31/08		.19																																							
Cal-endar		QUARTERLY DIVIDENDS PAID				Full Year		Total Debt \$86.5 mill.								Due in 5 Yrs. NA																									
2004		.208 .208 .21 .21				.84		LT Debt \$77.3 mill.																																	
2005		.21 .21 .213 .213				.85		Including Cap. Leases NA																																	
2006		.213 .213 .215 .215				.86		Leases, Uncapitalized Annual rentals NA																																	
2007		.215 .215 .218																																							
INSTITUTIONAL DECISIONS						Pension Liability None in '06 vs. None in '05						TOTAL SHAREHOLDER RETURN						Dividends plus appreciation as of 9/30/2007																							
4Q'06 1Q'07 2Q'07						Pfd Stock \$.8 mill.						3 Mos.						6 Mos.						1 Yr.						3 Yrs.						5 Yrs.					
to Buy 18 18 17						Pfd Div'd Paid NMF						-3.49%						-1.41%						9.41%						-2.28%						7.29%					
to Sell 12 11 12						Common Stock 8,312,806 shares																																			
Hld's(000) 1318 1461 1717						(56% of Cap'l)																																			

YORK WATER CO NDQ--YORW				RECENT PRICE	17.02	TRAILING P/E RATIO	28.8	RELATIVE P/E RATIO	1.47	DIV'D YLD	2.8%	VALUE LINE							
RANKS				10.22	13.45	13.49	14.03	17.87	20.99	18.55		High							
PERFORMANCE	2	Above Average		5.67	8.20	9.33	11.00	11.67	15.33	16.12		Low							
Technical	2	Above Average																	
SAFETY	3	Average																	
BETA	.55	(1.00 = Market)																	
Financial Strength	B+																		
Price Stability	60																		
Price Growth Persistence	55																		
Earnings Predictability	90																		
© VALUE LINE PUBLISHING, INC.				1999	2000	2001	2002	2003	2004	2005	2006	2007	2008/2009						
REVENUES PER SH	--	--	2.05	2.05	2.17	2.18	2.58	2.56	--	--									
"CASH FLOW" PER SH	--	--	.59	.57	.65	.65	.79	.77	--	--									
EARNINGS PER SH	--	--	.43	.40	.47	.49	.56	.58			.60 <sup>A,B</sup>	.68 <sup>C</sup> /NA							
DIV'D DECL'D PER SH	--	--	.34	.35	.37	.39	.42	.45	--	--									
CAP'L SPENDING PER SH	--	--	.75	.66	1.07	2.50	1.69	1.85	--	--									
BOOK VALUE PER SH	--	--	3.79	3.90	4.06	4.65	4.85	5.84	--	--									
COMMON SHS OUTST'G (MILL)	--	--	9.46	9.55	9.63	10.33	10.40	11.20	--	--									
AVG ANN'L P/E RATIO	--	--	17.9	26.9	24.5	25.7	26.3	31.2	28.4			25.0/NA							
RELATIVE P/E RATIO	--	--	.92	1.47	1.40	1.36	1.39	1.68	--	--									
AVG ANN'L DIV'D YIELD	--	--	4.3%	3.3%	3.2%	3.1%	2.9%	2.5%	--	--									
REVENUES (\$MILL)	--	18.5	19.4	19.6	20.9	22.5	26.8	28.7	--	--		Bold figures are consensus earnings estimates and, using the recent prices, P/E ratios.							
NET PROFIT (\$MILL)	--	3.8	4.0	3.8	4.4	4.8	5.8	6.1	--	--									
INCOME TAX RATE	--	35.7%	35.8%	34.9%	34.8%	36.7%	36.7%	34.4%	--	--									
AFUDC % TO NET PROFIT	--	--	2.2%	3.7%	--	--	--	7.2%	--	--									
LONG-TERM DEBT RATIO	--	50.2%	47.7%	46.7%	43.4%	42.5%	44.1%	48.3%	--	--									
COMMON EQUITY RATIO	--	49.8%	52.3%	53.3%	56.6%	57.5%	55.9%	51.7%	--	--									
TOTAL CAPITAL (\$MILL)	--	65.2	68.6	69.9	69.0	83.6	90.3	126.5	--	--									
NET PLANT (\$MILL)	--	97.0	102.3	106.7	116.5	140.0	155.3	174.4	--	--									
RETURN ON TOTAL CAP'L	--	7.9%	7.9%	7.4%	8.5%	7.6%	8.4%	6.2%	--	--									
RETURN ON SHR. EQUITY	--	11.6%	11.2%	10.2%	11.4%	10.0%	11.6%	9.3%	--	--									
RETURN ON COM EQUITY	--	11.6%	11.2%	10.2%	11.4%	10.0%	11.6%	9.3%	--	--									
RETAINED TO COM EQ	--	2.5%	2.5%	1.3%	2.6%	2.1%	3.0%	2.2%	--	--									
ALL DIV'DS TO NET PROF	--	78%	78%	88%	77%	79%	74%	77%	--	--									
<sup>A</sup> No. of analysts changing earn. est. in last 13 days: 0 up, 0 down, consensus 5-year earnings growth 11.3% per year. <sup>B</sup> Based upon 3 analysts' estimates. <sup>C</sup> Based upon 3 analysts' estimates.																			
ANNUAL RATES					ASSETS (\$mill.)			INDUSTRY: Water Utility											
of change (per share)					2005	2006	6/30/07	<p><b>BUSINESS:</b> The York Water Company engages in the impounding, purification, and distribution of water in York County and Adams County, Pennsylvania. It supplies water for residential, commercial, industrial, and other customers. The company has two reservoirs, Lake Williams and Lake Redman, which together hold approximately 2.2 billion gallons of water. It also has a 15-mile pipeline from the Susquehanna River to Lake Redman that provides access to an additional supply of water. The company serves 34 municipalities in York County and four municipalities in Adams County. In September, the company stated that Jeffrey S. Osman will retire as the water utility's president and chief executive effective March 1. Jeffrey R. Hines will take over as president and CEO upon Mr. Osman's retirement. Has 106 employees. C.E.O. &amp; President: Jeffrey S. Osman. Inc.: PA. Address: 130 East Market Street, York, PA 17401. Tel.: (717) 845-3601. Internet: <a href="http://www.yorkwater.com">http://www.yorkwater.com</a>.</p>											
5 Yrs.					.0	.0	.0												
1 Yr.					3.8	4.8	5.4												
Revenues					.8	.8	.8												
"Cash Flow"					.5	1.1	.8												
Earnings					5.1	6.7	7.0												
Dividends																			
Book Value																			
Fiscal Year					LIABILITIES (\$mill.)			<p><b>BUSINESS:</b> The York Water Company engages in the impounding, purification, and distribution of water in York County and Adams County, Pennsylvania. It supplies water for residential, commercial, industrial, and other customers. The company has two reservoirs, Lake Williams and Lake Redman, which together hold approximately 2.2 billion gallons of water. It also has a 15-mile pipeline from the Susquehanna River to Lake Redman that provides access to an additional supply of water. The company serves 34 municipalities in York County and four municipalities in Adams County. In September, the company stated that Jeffrey S. Osman will retire as the water utility's president and chief executive effective March 1. Jeffrey R. Hines will take over as president and CEO upon Mr. Osman's retirement. Has 106 employees. C.E.O. &amp; President: Jeffrey S. Osman. Inc.: PA. Address: 130 East Market Street, York, PA 17401. Tel.: (717) 845-3601. Internet: <a href="http://www.yorkwater.com">http://www.yorkwater.com</a>.</p>											
QUARTERLY SALES (\$mill.)					2005									2006			6/30/07		
1Q					2005									2006			6/30/07		
2Q					2005									2006			6/30/07		
3Q					2005									2006			6/30/07		
4Q					2005									2006			6/30/07		
Full Year					2005									2006			6/30/07		
					2005									2006			6/30/07		
					2005									2006			6/30/07		
					2005									2006			6/30/07		
Fiscal Year					EARNINGS PER SHARE			<p><b>BUSINESS:</b> The York Water Company engages in the impounding, purification, and distribution of water in York County and Adams County, Pennsylvania. It supplies water for residential, commercial, industrial, and other customers. The company has two reservoirs, Lake Williams and Lake Redman, which together hold approximately 2.2 billion gallons of water. It also has a 15-mile pipeline from the Susquehanna River to Lake Redman that provides access to an additional supply of water. The company serves 34 municipalities in York County and four municipalities in Adams County. In September, the company stated that Jeffrey S. Osman will retire as the water utility's president and chief executive effective March 1. Jeffrey R. Hines will take over as president and CEO upon Mr. Osman's retirement. Has 106 employees. C.E.O. &amp; President: Jeffrey S. Osman. Inc.: PA. Address: 130 East Market Street, York, PA 17401. Tel.: (717) 845-3601. Internet: <a href="http://www.yorkwater.com">http://www.yorkwater.com</a>.</p>											
1Q					2005									2006			6/30/07		
2Q					2005									2006			6/30/07		
3Q					2005									2006			6/30/07		
4Q					2005									2006			6/30/07		
Full Year					2005									2006			6/30/07		
					2005									2006			6/30/07		
					2005									2006			6/30/07		
					2005									2006			6/30/07		
					2005									2006			6/30/07		
Cal-endar					QUARTERLY DIVIDENDS PAID			<p><b>BUSINESS:</b> The York Water Company engages in the impounding, purification, and distribution of water in York County and Adams County, Pennsylvania. It supplies water for residential, commercial, industrial, and other customers. The company has two reservoirs, Lake Williams and Lake Redman, which together hold approximately 2.2 billion gallons of water. It also has a 15-mile pipeline from the Susquehanna River to Lake Redman that provides access to an additional supply of water. The company serves 34 municipalities in York County and four municipalities in Adams County. In September, the company stated that Jeffrey S. Osman will retire as the water utility's president and chief executive effective March 1. Jeffrey R. Hines will take over as president and CEO upon Mr. Osman's retirement. Has 106 employees. C.E.O. &amp; President: Jeffrey S. Osman. Inc.: PA. Address: 130 East Market Street, York, PA 17401. Tel.: (717) 845-3601. Internet: <a href="http://www.yorkwater.com">http://www.yorkwater.com</a>.</p>											
1Q					2005									2006			6/30/07		
2Q					2005									2006			6/30/07		
3Q					2005									2006			6/30/07		
4Q					2005									2006			6/30/07		
Full Year					2005									2006			6/30/07		
					2005									2006			6/30/07		
					2005									2006			6/30/07		
					2005									2006			6/30/07		
					2005									2006			6/30/07		
INSTITUTIONAL DECISIONS					Pension Liability \$5.9 mill. in '06 vs. \$3.9 mill. in '05			<p><b>BUSINESS:</b> The York Water Company engages in the impounding, purification, and distribution of water in York County and Adams County, Pennsylvania. It supplies water for residential, commercial, industrial, and other customers. The company has two reservoirs, Lake Williams and Lake Redman, which together hold approximately 2.2 billion gallons of water. It also has a 15-mile pipeline from the Susquehanna River to Lake Redman that provides access to an additional supply of water. The company serves 34 municipalities in York County and four municipalities in Adams County. In September, the company stated that Jeffrey S. Osman will retire as the water utility's president and chief executive effective March 1. Jeffrey R. Hines will take over as president and CEO upon Mr. Osman's retirement. Has 106 employees. C.E.O. &amp; President: Jeffrey S. Osman. Inc.: PA. Address: 130 East Market Street, York, PA 17401. Tel.: (717) 845-3601. Internet: <a href="http://www.yorkwater.com">http://www.yorkwater.com</a>.</p>											
4Q'06					Pfd Stock None									Pfd Div'd Paid None					
1Q'07					Common Stock 11,232,700 shares									(52% of Cap'l)					
2Q'07																			
to Buy																			
to Sell																			
Hld's(000)																			
TOTAL SHAREHOLDER RETURN					3 Mos.			6 Mos.			1 Yr.			3 Yrs.			5 Yrs.		
Dividends plus appreciation as of 9/30/2007					-4.46%			0.42%			-9.03%			58.00%			73.72%		

## Inflation Versus AAA Corporate Bond Yields: Recent Trends



## 10-Year Treasury Constant Maturity Rate



## 30-Year Treasury Constant Maturity Rate

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